HUNTINGDON
Real Estate Investment Trust

2006 ANNUAL REPORT

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Financial Highlights - 2006

	Year Ended December 31					
	Total			Per Unit - Basic		
	2006	2005	% Change	2006	2005	$ Change
Operating income	$ 32,741,820	$ 10,117,412	224 %	$ 0.485	$ 0.283	$ 0.202
Distributable income	$ 14,685,156	$ 5,779,916	154 %	$ 0.217	$ 0.162	$ 0.055
Cash from operating activities	$ 9,474,200	$ 6,637,066	43 %	$ 0.140	$ 0.185	$ (0.045)
FFO	$ 15,840,804	$ 5,285,624	200 %	$ 0.234	$ 0.148	$ 0.086
AFFO	$ 12,318,394	$ 5,252,483	135 %	$ 0.182	$ 0.147	$ 0.035
Income (loss) from continuing operations	$ (1,024,458)	$ 474,044	(316)%	$ (0.015)	$ 0.013	$ (0.028)
Income (loss)	$ (74,682)	$ 491,478	(115)%	$ (0.001)	$ 0.014	$ (0.015)

2006 HIGHLIGHTS

Acquisition and Development

- Invested $135 Million in the acquisition of ten additional properties, representing 1.12 million square feet of leasable area.
- Invested $8.7 Million in property improvements, remarketing initiatives and leasing costs.
- Sold one light industrial property at a net gain of $885,162.
- Year ending portfolio consists of 51 properties with a total leasable area of 4.3 million square feet.

Financial

- Operating income increased by $22.6 Million or 224% in total and by $0.202 or 71% on a per unit basis.
- "Same property" operating income for the fourth quarter of 2006 increased by $690,768 or 13%, compared to the fourth quarter of 2005.
- Funds from operations (FFO) increased by $10.6 Million or 200% in total and by $0.086 or 58% on a per unit basis.
- Occupancy rate for entire portfolio increased from 93% in 2005 to 94% in 2006.

Capital Structure

- Financed $141.7 Million of mortgage debt.
- Weighted average interest rate on the aggregate mortgage loan balance of 6.79% at December 31, 2006.
- Mortgage loan debt to total capitalization of 59.9% at December 31, 2006.

Unitholder Returns

	December 31 2006	December 31 2005
Distribution per unit	$0.28	$0.21
Opening unit price	$2.75	$2.00
Closing unit price	$2.30	$2.75
Annualized yield on opening price (distribution/opening unit price)	10.2%	14.0%
Projected cash distribution - 2007:	$0.28	
Closing unit price - March 20, 2007	$2.54	
Annualized current yield:	11.0%	

REIT Unit Price History

Month	High	Low	Volume
2007			
to March 20	$2.70	$2.25	2,109,111
February	$2.83	$2.40	6,529,401
January	$2.55	$2.40	3,688,868
2006			
December	$2.35	$2.23	3,225,988
November	$2.30	$2.16	2,918,748
October	$2.35	$2.05	2,484,363
September	$2.40	$2.10	1,378,096
August	$2.54	$2.14	1,253,589
July	$2.30	$2.10	1,822,316
June	$2.25	$2.01	7,200,221
May	$2.65	$2.17	2,459,402
April	$2.65	$2.50	1,846,673
March	$2.79	$2.57	4,252,671
February	$2.90	$2.58	8,571,213
January	$2.80	$2.25	2,877,638

REPORT TO UNITHOLDERS

In the two years since its inception as a real estate investment trust on February 23, 2005, HREIT has undergone a dramatic growth period, ending the 2006 fiscal year with a real estate portfolio approaching the $400 Million level and generating revenues in excess of $57 Million. During 2006, the property portfolio of HREIT increased by $141.6 Million or 52.8%, representing the acquisition of ten new properties and the sale of one of the 2005 property acquisitions. In total, the gross leasable area of the HREIT portfolio increased by over one million square feet in 2006, with the office property component accounting for 67% of the increase.

The 2006 property acquisitions of HREIT include a number of high profile properties, the most notable of which is Cityplace in Winnipeg, Manitoba. Prominently located in the heart of the downtown area, and in close proximity to several major hotels, office complexes and shopping areas, Cityplace encompasses over 450,000 square feet of leasable area and is the largest property in the HREIT portfolio.

On a weighted average basis, the 2006 property acquisitions were owned by HREIT for a period of approximately 7 1/2 months. The inclusion of the 2006 property acquisitions for a full 12 months will result in a very significant increase in operating income and cash flows in 2007. Based on the annualization of the operating results of HREIT for the fourth quarter of 2006, the incremental operating income associated with the 2006 property acquisitions is projected to be in excess of $6.5 Million.

In accordance with its strategy of pursuing opportunities to maximize the cash flow and long-term value of existing property holdings, HREIT invested approximately $8.7 Million in capital improvements, property renovations and remarketing initiatives in 2006. The majority of the investment capital was directed toward the funding of comprehensive leasehold and property improvement programs at seven properties, all of which were acquired in 2005. For two of the properties, 110 Lowson Crescent and Speedvale Centre, the improvements were substantially complete as of December 31, 2006 and resulted in an immediate improvement in operating results. The combined operating income of 110 Lowson Crescent and Speedvale Centre for the fourth quarter of 2006 increased by approximately $195,000 or 78%, compared to the fourth quarter of 2005. The return on the remaining properties is also expected to increase by a very significant amount, as the property renovations and remarketing initiatives are completed throughout 2007.

The "same property" analysis which is included in the accompanying report provides a good indication of the extent to which property improvements, combined with rent increases and improved occupancy levels, are contributing to significant growth in the income potential of the property portfolio. As disclosed in the analysis, the net operating income for the 37 properties which have been in the HREIT portfolio since October 1, 2005, increased by approximately $690,000 or 13% in the fourth quarter of 2006, compared to the fourth quarter of 2005. On an annualized basis, the fourth quarter improvement represents an increase of approximately $2.8 Million.

In summary, a very solid foundation has been established over the past two years in terms of creating a diversified portfolio of quality commercial properties. There is a very significant amount of income growth and value which is projected in 2007 from the operation of the 2006 property acquisitions for a full year and as a result of the completion of comprehensive leasehold and property improvement programs at a number of higher profile properties. Income from new property acquisitions will further enhance the overall net operating income and cash flows of the Trust.

HUNTINGDON REAL ESTATE INVESTMENT TRUST

A.C. Thorsteinson

ARNI C. THORSTEINSON, CFA
President & Chief Executive Officer
March 21, 2007

MANAGEMENT'S DISCUSSION AND ANALYSIS

The following comments in regard to the financial position and operating results of HREIT should be read in conjunction with the financial statements for the year ended December 31, 2006 and accompanying notes and with reference to the report for the quarterly reports for 2006. In addition, certain statements in the Management's Discussion and Analysis could be considered as forward-looking information. The forward-looking information is subject to certain risks and uncertainties which could result in actual results differing materially from the forward-looking statements.

CREATION OF HUNTINGDON REAL ESTATE INVESTMENT TRUST ("HREIT")

Prior to its reorganization as a real estate investment trust, HREIT existed as a capital pool company known as "WPVC Inc.". WPVC Inc. was incorporated under the Canada Business Corporations Act on May 4, 2004, completed its initial public offering on September 14, 2004 and became a publicly listed company on the TSX Venture Exchange on September 16, 2004.

On February 23, 2005, WPVC Inc. completed a Qualifying Transaction whereby, pursuant to a Plan of Arrangement, WPVC Inc. was reorganized into a real estate investment trust, under the name of "Huntingdon Real Estate Investment Trust". In accordance with the Plan of Arrangement, the common shares of WPVC Inc. were exchanged for trust units of HREIT on a five to one basis.

The re-organization of WPVC Inc. into HREIT was promoted by Shelter Canadian Properties Limited ("Shelter Canadian").

The trust units of HREIT commenced trading on the TSX Venture Exchange on February 25, 2005. Effective September 21, 2006, the units graduated to a listing on the Toronto Stock Exchange.

OVERALL INVESTMENT OBJECTIVES AND STRATEGY

The primary objectives of Huntingdon Real Estate Investment Trust ("HREIT") are to maximize unit values and provide stable cash distributions to the Unitholders by creating a large diversified portfolio of quality real estate investments, primarily through the acquisition of income-producing real properties, other than multi-family residential properties. In accordance with its operating policies and subject to certain conditions, HREIT may also invest in leasehold interests, joint venture arrangements, mortgages, operating businesses and other real estate investments, with the primary limiting factor being that the main source of income from the investments must be derived from income-producing real properties, other than multi-family residential properties.

The general investment strategy of HREIT for property acquisitions is to focus on properties with stable yields, low vacancy levels, strong tenant covenants and growth potential. HREIT then strives to maximize operating income through the implementation of sophisticated and prudent financial management practices, superior operating procedures, high calibre and responsive management services, proactive leasing strategies and, where appropriate, capital improvement and renovation programs.

HREIT will also strive to optimize the leveraged returns from its real estate investment portfolio, while remaining within the overall debt limits as established by the Declaration of Trust. Whenever possible, HREIT will utilize fixed rate debt financing with terms which are appropriate for the nature of the leases and the properties being financed. Debt maturity dates will be staggered, to the extent possible, in order to reduce refinancing risk and to provide a potential source of additional capital as mortgage loans are refinanced. HREIT will also utilize operating lines or acquisition facilities to generate interim capital.

Real Estate Portfolio - December 31, 2006 *

Property	Location	Purchase Price (1)	Acquisition Date	Leasable Area (Sq. Ft.)	Occupancy 12/31/06
Light Industrial					
1935 Sargent Ave.	Winnipeg, MB	$ 8,130,000	February 2005	113,864	100 %
130 Lowson Cres.	Winnipeg, MB	1,650,000	March 2005	25,672	100 %
891/895 Century St.	Winnipeg, MB	1,650,000	April 2005	51,835	100 %
119/130 Plymouth (2)	Winnipeg, MB	1,900,000	May 2005	43,364	100 %
1300 Church Ave.	Winnipeg, MB	1,250,000	May 2005	40,602	100 %
110 Lowson Cres.	Winnipeg, MB	2,800,000	May 2005	60,903	100 %
650 Riverview Drive	Chatham, ON	8,950,000	July 2005	292,376	100 %
80/88 Fennell Street	Winnipeg, MB	1,200,000	August 2005	40,320	70 %
110 Henderson Drive	Regina, SK	2,900,000	September 2005	101,360	100 %
5404-36th Street	Calgary, AB	2,400,000	December 2005	36,000	100 %
505 Industrial Drive	Milton, ON	16,250,000	May 2006	258,960	100 %
Marion Street (2)	Winnipeg, MB	2,829,000	June 2006	82,851	96 %
Total Light Industrial		51,909,000		1,148,107	99 %
Retail					
Westwood Mall	Thompson, MB	1,986,700	March 2005	53,996	97 %
Southfort Square	Fort Sask., AB	1,700,000	April 2005	33,508	92 %
Vista Landing	Calgary, AB	8,300,000	June 2005	62,099	98 %
Northgate (50% interest)	Winnipeg, MB	5,550,000	June 2005	238,254	98 %
Chemainus Properties (2)	Chemainus, BC	4,208,400	August 2005	35,397	100 %
Cumbria Centre	Spruce Grove, AB	2,143,900	August 2005	21,253	78 %
125-185 First St. E.	Cochrane, AB	2,799,000	August 2005	15,757	100 %
Westland Plaza	Okotoks, AB	2,898,300	August 2005	13,839	100 %
Charleswood Square	Winnipeg, MB	3,444,200	August 2005	34,069	75 %
550 Sask. Ave.	Portage la Prairie, MB	406,200	August 2005	1,995	-
1250 Steeles Ave. E	Brampton, ON	6,500,000	September 2005	50,056	100 %
Crossroads Centre (3)	London, ON	25,351,700	September 2005	193,873	94 %
Lincoln Centre	Welland, ON	6,000,000	September 2005	167,132	88 %
Portage Place (5)	Peterborough, ON	27,000,000	September 2005	212,766	53 %
Speedvale Centre (3)	Guelph, ON	14,621,500	September 2005	116,868	96 %
Suncoast Mall	Goderich, ON	12,500,000	September 2005	160,379	97 %
Southland Mall	Winkler, MB	9,000,000	September 2005	182,796	97 %
Humboldt Mall	Humboldt, SK	3,500,000	September 2005	105,801	85 %
Willowcreek Centre	Peterborough, ON	13,000,000	September 2005	64,265	100 %
Flin Flon Wal-Mart	Flin Flon, MB	5,875,000	October 2005	63,439	100 %
Deer Park	Red Deer, AB	11,600,000	October 2005	57,806	100 %
Harbour View Village	Kenora, ON	1,250,000	November 2005	14,864	88 %
Douglasview Centre	Calgary, AB	3,600,000	March 2006	17,084	95 %
Airport Road	Yellowknife, NWT	5,300,000	June 2006	15,924	100 %
Total Retail		178,534,900		1,933,220	90 %
Office					
1000 Waverley Street	Winnipeg, MB	5,250,000	May 2005	59,439	100 %
NewPort Center	Winnipeg, MB	13,000,000	May 2005	152,915	94 %
1189 Colonel Sam Dr.	Oshawa, ON	16,900,000	July 2005	103,179	100 %
114 Garry Street	Winnipeg, MB	5,600,000	August, 2005	74,248	100 %
Centre Square	Yellowknife, NWT	13,000,000	August, 2005	92,420	94 %
Saskatchewan Place	Regina, SK	7,400,000	February 2006	81,381	96 %
280 Broadway Avenue	Winnipeg, MB	11,000,000	March 2006	104,525	100 %
Medical Arts Building	Winnipeg, MB	14,050,000	April 2006	109,104	83 %
Cityplace (4)(5)	Winnipeg, MB	74,651,700	June 2006	451,764	96 %
Total Office		160,851,700		1,228,975	96 %
Total Properties		391,295,600		4,310,302	94 %
Other					
CRESI	Calgary, AB	2,850,000	March 2005		
Total real estate investments		$ 394,145,600			

* See next page for notes.

Notes to Real Estate Portfolio:

(1) The purchase price is exclusive of legal fees, land transfer tax and closing costs. The purchase price is subject to change based on adjustments which may occur subsequent to the closing date of acquisition.

(2) Multi-property acquisitions include 119/130 Plymouth Avenue (two properties); the Chemainus Properties (four properties); and Marion Street Business Park (three properties).

(3) The purchase price of Crossroads Centre and Speedvale Centre have increased from previous reports to reflect contingent consideration of $96,700 and $562,500, respectively (see Page 33).

(4) The purchase price is net of escrow funds of $3,848,313.

(5) HREIT receives rent/income supplements from cash in escrow in regard to vacant space.

INVESTMENT ACTIVITIES

Property Acquisitions

Property Portfolio - December 31, 2006

As of December 31, 2005, the real estate portfolio of HREIT consisted of 42 properties with a total purchase price of $258.6 Million, encompassing 3.2 Million square feet of leasable area.

During 2006, the total acquisition cost of the properties in the HREIT portfolio increased by $141.6 Million, representing the acquisition of ten properties in 2006 and the sale of one of the 2005 property acquisitions. As of December 31, 2006, the property portfolio consists of 51 properties with a total purchase price of approximately $391.3 Million, encompassing 4.3 Million square feet of leasable area.

Property Sales

Although HREIT is in a progressive growth mode and expects to achieve a significant increase in its property portfolio in the upcoming months, the sale of an existing property will be considered if the sale is conducive to the longer term objective of maximizing operating income and unit values. In addition to the proposed selling price, there are a number of variables which are considered in the sale decision for a specific property, including the stability of the existing tenant base and the projected leasehold improvements and/or property upgrade costs. Certain properties which were acquired as part of a multi-property acquisition may also be more likely potential sale candidates. On August 1, 2006, HREIT sold a light industrial property located at 3223 - 10th Street in Calgary, Alberta at a net selling price of $4 Million. The property was acquired by HREIT in December 2005 for $3.1 Million.

As disclosed in Note 9 of the audited financial statements, the net income, as well as assets and liabilities associated with the property disposition, are classified separately under "discontinued operations".

Property Acquisitions - Subsequent to December 31, 2006

Airport Place

On March 2, 2007, HREIT acquired a 50% beneficial interest in Airport Place, a multi-tenant retail/office/warehouse property comprised of 655,005 square feet of leasable area and located in Winnipeg, Manitoba.

The purchase price of $7.4 Million was funded by the assumption of 50% of a 8.241% first mortgage loan in the approximate amount of $6.25 Million, with the balance in cash.

Alberta Industrial Properties

In March, HREIT entered an unconditional agreement to acquire three recently constructed industrial properties in Alberta at a combined purchase price of $19.6 Million. The properties comprise a total of 94,960 square feet of leasable area and will be leased back to the Vendor under a 20 year triple net lease with rent increases every five years.

HREIT has obtained a financing commitment for the acquisition of the properties in the form of a five year, 5.63% first mortgage loan in the amount of $13,975,000, with the balance of the purchase price to be paid in cash.

Investments in Operating Businesses

Consolidated Real Estate Services Inc.

The real estate investments of HREIT include a 100% controlling interest in Consolidated Real Estate Services Inc. ("CRESI"). CRESI is a well-established property management company, responsible for the management of a national portfolio of real estate properties. The current portfolio of CRESI-managed properties encompasses approximately 1.9 Million square feet of office and retail properties and 4,100 residential units.

One of the primary objectives of owning CRESI is to strengthen the geographic presence of HREIT in terms of both operational diversification and property management capabilities.

FINANCING ACTIVITIES

The overall strategy of HREIT is to fund the equity component of new property acquisitions through the issuance of trust units or convertible debentures. The upward refinancing of property debt may also serve as a source of capital.

HREIT will also utilize operating lines of credit, bridge financing and other short-term financing facilities as a source of interim investment capital, as investment opportunities arise, pending the replenishment of capital reserves from additional trust unit or convertible debenture offerings.

Trust Units

Units Outstanding

HREIT is authorized to issue an unlimited number of trust units. As of December 31, 2006, HREIT had 67,691,485 trust units outstanding, representing an increase of 286,243 units, compared to the number of units outstanding as of December 31, 2005.

A summary of the units, which have been issued by HREIT as of December 31, 2006, since its inception as a publicly listed entity, is provided below.

Issue Date	Description	Units Issued	Equity Raised *
February 24, 2005	Initial units issued on creation of HREIT	880,000	$ -
February 24, 2005	Private Placement	2,500,000	5,000,000
March 22, 2005	Private Placement	13,340,000	30,015,000
April 13, 2005	Units issued in exchange for advisory services	100,000	-
June 29, 2005	Private placement	34,428,742	94,679,041
September 15, 2005	Private placement	16,054,500	45,755,325
To December 15, 2005	Exercise of unit options	102,000	204,000
Units outstanding, December 31, 2005		67,405,242	175,653,366
June 1, 2006	Units issued on acquisition of Marion Street Business Park	275,000	825,000
December 2006	Units issued under DRIP	11,243	24,892
Units outstanding, December 31, 2006		67,691,485	$ 176,503,258

* Equity raised excludes issue costs and equity raised by WPVC Inc.

Distribution Reinvestment Plan ("DRIP")

In November 2006, HREIT implemented a "Distribution Reinvestment Plan" whereby Unitholders may choose to have monthly cash distributions automatically reinvested in additional units, while receiving a "bonus" distribution of units equal to 4% of the reinvested amount. Participants in the DRIP may also purchase additional units on a distribution payment date. The purchase price of the units will generally be equal to the weighted average closing price of the units for the five trading days immediately preceding the relevant distribution payment date.

As disclosed in the preceding chart, 11,243 units were issued or purchased under the Distribution Reinvestment Plan during 2006.

Unit Offering Subsequent to December 31, 2006

On January 17, 2007, HREIT completed a private placement of 4,166,700 trust units at a price of $2.40 per unit for aggregate gross proceeds of $10,000,080. The units are subject to a hold period of four months and one day from the date of the issue accordance with applicable securities laws and the policies of the Toronto Stock Exchange.

Cash Distribution Dates and Amounts

The cash distribution policy of HREIT is to pay cash distributions on a monthly basis. The cash distribution for each month, excluding December, is paid on or about the 15th day of the following month to the Unitholders of record on each month end. The cash distribution for December is paid on or before December 31 to the Unitholders of record on or about December 15th. A cash distribution of $0.02333 per unit, or $0.28 on an annualized basis, was paid for the months of January to December 2006, inclusive. After accounting for the value of units which were issued under the Distribution Reinvestment Plan of $24,892, the total distribution for 2006 was $18,931,533.

A cash distribution of $0.02333 per unit, or $0.28 per unit on an annualized basis, was paid for the months of January and February 2007. The February 2007 distribution was paid on March 15, 2007.

Convertible Debentures

Debenture Offerings as of December 31, 2006

A summary of the debenture offerings which have been undertaken by HREIT since its inception date as a publicly listed entity, to December 31, 2006, is provided in the following chart.

Summary of Debenture Offerings

Issue Date/Maturity Date	Series	Interest Rate	Amount Issued
March 22/05/March 22/10	A	8 %	$ 6,000,000
June 30/05/June 29/10	B	8 %	5,321,000
Face value of convertible debentures, December 31, 2006			11,321,000
Net accumulated accretion			681,524
Book value of convertible debentures, December 31, 2006			$ 12,002,524
Allocation of book value:			
Debt component			$ 9,316,092
Equity component			2,686,432
			$ 12,002,524

In accordance with generally accepted accounting principles, the total amount of convertible debentures, as disclosed in the financial statements, is divided into debt and equity components based on the present value of future interest and principal payments. The amount by which the total present value exceeds the face value of the convertible debentures is referred to as "accretion". The accretion of debt component, which serves to increase the carrying value of the debt component, is included in financing expense. As accretion is a "non-cash" transaction, the accretion of the debt component is added back for purposes of calculating the cash flow and distributable income of the Trust.

The allocation of the debt and equity component, for each debenture issue, is provided in Note 12 of the audited financial statements.

Debenture Offerings Subsequent to December 31, 2006

In February 2007, HREIT initiated a public offering of 5 Year Series C Convertible Redeemable Unsecured Subordinated Debentures in the maximum aggregate principal amount of $42 Million. The offering is expected to close by March 29, 2007.

HREIT has also provided the selling agents with an option to acquire additional debentures equal to 15% of the number of debentures sold pursuant to the offering.

Mortgage Loans Payable

December 31, 2006	$264,701,327
December 31, 2005	$127,490,580

Summary of Mortgage Loans Payable

Year of Maturity	Weighted Average Interest Rate	Amount December 31, 2006	Percentage of Total
2007	9.18 %	$ 33,725,904	12.76 %
2008	7.71 %	51,044,293	19.31 %
2009	6.22 %	27,923,092	10.56 %
2010	7.03 %	27,127,070	10.26 %
2011	5.62 %	25,365,756	9.59 %
2012	7.06 %	3,858,690	1.46 %
2013	7.05 %	1,971,240	0.75 %
2015	5.08 %	17,902,865	6.77 %
2016	5.97 %	65,653,026	24.83 %
2025	6.22 %	9,800,615	3.71 %
		264,372,551	100.00 %
Mortgage premiums		328,776	
		$ 264,701,327	

Mortgage Loan Portfolio

The general policy of HREIT is to utilize mortgage loan financing to partially fund property acquisitions. The Declaration of Trust limits the total amount of the mortgage indebtedness of the Trust to 75% of the appraised value of the properties of the Trust.

The balance of mortgage loans payable, as of December 31, 2006, excluding mortgage premiums, increased by approximately $137.3 Million, compared to the balance as of December 31, 2005. The increase represents additional mortgage proceeds of approximately $141.7 Million, less principal payments of approximately $4.4 Million. The gross amount of $141.7 Million is comprised of approximately $101.1 Million of mortgage loan financing for properties which were acquired in 2006; approximately $28.8 Million of mortgage loan financing for properties which were acquired in 2005; and an interim mortgage loan of $11.87 Million which is secured by second and/or third charges registered against Willowcreek Centre, Vista Landing, Southland Mall and Crossroads Centre.

As of December 31, 2006, the weighted average interest rate of the entire portfolio of mortgage loans is 6.79%, compared to 6.67% as of December 31, 2005. Mortgage loans payable represent 60.8% of the estimated current value of the property portfolio of HREIT, as of December 31, 2006, compared to 48.6% as of December 31, 2005.

Fourth Quarter of 2006

During the fourth quarter of 2006, the mortgage loan financing activities of HREIT consisted of the proceeds of a second mortgage loan for Speedvale Centre, in the amount of $4 Million.

Special Debt Provisions

Cityplace - Second Mortgage Loan

The acquisition of Cityplace encompassed a $4 Million second mortgage loan at an interest rate of 6%. The loan does not require monthly payments as it is repayable in lump-sum instalments of $2 Million, plus accrued interest, on each of June 30, 2008 and June 30, 2009.

Interim Mortgage Loan

The interim second mortgage loan, in the amount of $11.87 Million, bears interest at a rate of 11%, is due on May 1, 2007, and requires payments of interest only. The intent of HREIT is to repay the loan from new mortgage financing in 2007.

BALANCE SHEET ITEMS

Asset/Debt Summary

	December 31, 2006	December 31, 2005
Total assets	$ 457,394,570	$ 301,116,091
Mortgage loans payable (excluding mortgage premiums)	$ 264,372,551	$ 127,049,558
Convertible debentures (face value)	11,321,000	11,321,000
	$ 275,693,551	$ 138,370,558

Total Assets

During 2006, total assets increased by approximately $156 Million, compared to total assets as of December 31, 2005. The increase mainly reflects increases in asset balances in regard to 2006 property acquisitions.

Cash

As of December 31, 2006, the total cash balance of HREIT was $22,149,645, compared to $23,639,130 as of December 31, 2005.

As disclosed in Note 6 of the audited financial statements, the cash balance of HREIT includes escrow and reserve deposits of $17,349,937, including $15,512,977 of escrow funds which were recorded as a reduction in the purchase price of acquired properties. An analysis of escrow/reserve funds is provided in the following charts:

Analysis of Escrow/Reserve Funds

	Amount Deducted From Purchase Price	Cumulative Decrease 2006	Cumulative Decrease 2005	Balance December 31, 2006
Escrow Funds Deducted from Purchase Price				
To fund construction/tenant acquisition costs (1):				
Portage Place	$ 7,500,000	$ 1,425,506	$ -	$ 6,074,494
Southland Mall	3,000,000	1,028,907	-	1,971,093
Speedvale Centre	2,742,533	827,608	1,084,725	830,200
Crossroads Centre	245,016	175,374	69,642	-
	13,487,549	3,457,395	1,154,367	8,875,787
To supplement revenue/income (2):				
Cityplace	3,848,313	705,980	-	3,142,333
Portage Place	1,500,000	513,843	-	986,157
Speedvale Centre	198,420	120,453	69,267	8,700
	5,546,733	1,340,276	69,267	4,137,190
Purchase price holdbacks (3)				
Portage Place	2,500,000	-	-	2,500,000
Total funds deducted from purchase price	$ 21,534,282	$ 4,797,671	$ 1,223,634	15,512,977
Other Escrow Funds				
Lease renewal reserves				1,240,534
Capital improvements				596,426
				$ 17,349,937

Notes:

(1) Amounts released from escrow are recorded as an asset addition or deferred expense.
(2) Amounts released from escrow become unencumbered funds of the Trust and do not have any impact on revenue or income.
(3) Amounts released from escrow are recorded as a building addition.

Long-Term Financial Liabilities

As of December 31, 2006, mortgage loans payable and debenture debt, at face value, amounted to $276 Million or 63.4% of the estimated current value of the property portfolio of HREIT, compared to 52.8% as of December 31, 2005. The increase in the overall "debt" ratio is mainly due to the increase in mortgage loans payable in regard to properties which were acquired in 2005.

Other Balance Sheet Items

Deferred Charges/Intangible Assets/Intangible Liabilities

	As of December 31, 2006	As of December 31, 2005
Deferred charges	$ 25,751,574	$ 15,189,338
Intangible assets	$ 11,936,213	$ 8,691,369
Intangible liabilities	$ 2,704,807	$ 3,219,378

The majority of property acquisition costs are charged to "Income Properties". In accordance with generally accepted accounting principles, a portion of the costs are also allocated to deferred charges and to intangible assets or intangible liabilities.

As per Note 5 of the audited financial statements, the original cost of deferred charges was $32,328,818 as of December 31, 2006, representing an increase of approximately $15.4 Million, in comparison to the original cost of $16,932,837 as of December 31, 2005. The increase in the original cost of deferred charges, during 2006, consists of approximately $7.1 Million of acquisition costs in regard to new properties; approximately $6.3 Million in lease acquisition and long-term maintenance expenditures for existing properties; approximately $1.4 Million in financing costs in regard to mortgage loans; and a net increase of $554,954 in regard to the carrying cost of deferred management fees. The lease acquisition and long-term maintenance expenditures of approximately $6.3 Million include approximately $2.3 Million of costs which were funded from escrow accounts.

The increase in the balance of intangible assets, as well as the increase in the balance of intangible liabilities, consists primarily of amounts related to the allocation of the purchase price of property acquisitions, offset by an increase in amortization charges.

A breakdown of deferred charges, intangible assets and intangible liabilities is provided in the audited financial statements in Note 5, Note 8 and Note 13, respectively.

Deferred Management Fees

During 2006, the carrying cost of deferred management fees was increased by $1,117,000 in order to reflect a future tax liability for CRESI. The tax liability pertains to the difference between the tax and book value of the assets.

The increase in the carrying cost of deferred management fees was offset by the establishment of a future tax liability in accounts payable and accrued liabilities (see page 14). The charge to deferred management fees and the corresponding tax liability will decline as the difference between the tax and book value of the assets decreases over time.

During 2006, the projected income from the original portfolio of commercial property agreements was reduced by approximately 20%, due to the sale of a number of the managed properties and the resultant termination of the management agreements.

In accordance with generally accepted accounting principles, the reduction in the income stream on which the original value of CRESI was determined, necessitated a reduction in the book value of the CRESI acquisition costs. Accordingly, the reduction in the book value of CRESI encompassed a non-recurring amortization charge to deferred management fees of $477,739. The original cost and accumulated amortization expense for deferred management fees was also reduced by $562,046 during the third quarter of 2006, representing the total cumulative amortization expense charges pertaining to the terminated contracts, since the acquisition of CRESI.

Notwithstanding the lump-sum amortization charge of $477,739, the reduction in income from the original portfolio of commercial property management contracts has been offset, to a significant degree, by revenue from new commercial and residential property management agreements. After considering the new contracts, the current property management revenue of CRESI is approximately 8% less, in comparison to the projected revenue from the original contracts.

The adjustment for the future tax liability, combined with the reduction in accumulated amortization expense, resulted in a net increase to the carrying costs of deferred management fees of $554,954.

Other Assets

December 31, 2006	$6,454,724
December 31, 2005	$10,081,755

As disclosed in Note 7 of the audited financial statements, other assets consists primarily of operating amounts receivable, prepaid construction costs related to property improvements at Portage Place and straight-line rent receivable in regard to leases with free rent allowance and/or graduated rental rate increases.

Other assets decreased by approximately $3.6 Million during 2006, mainly due to a $6.6 Million reduction in deposits on potential acquisitions, partially offset by an increase in operating amounts receivable of $800,000, an increase in prepaid construction costs of $1.7 Million and an increase in straight-line rent receivable of $1 Million. As disclosed in Note 3 of the audited financial statements, deposits of $5.6 Million were used to fund the acquisition of the eight new properties in 2006.

Accounts Payable and Accrued Liabilities

December 31, 2006	$8,506,385
December 31, 2005	$4,503,235

Accounts payable and accrued liabilities consist primarily of trade accounts payable, accrued interest on mortgage loans payable, tenant security deposits and a liability for future income taxes.

Accounts payable and accrued liabilities increased by approximately $4.0 Million during 2006. The increase reflects an increase in the main payable and liability accounts, due to an increase in the number of properties in the HREIT portfolio, as well as the unamortized balance of the future tax liability for CRESI.

Acquisition Asset and Liability

The purchase of Cityplace encompassed the acquisition of the bare trustee company which holds title to the property, 2017166 Ontario Limited. The debt of 2017166 Ontario Limited included a loan with Computer Share Trust Company of Canada of approximately $35 Million. As the loan could not be discharged on closing, due to the nature of the loan security, the Vendor was responsible for the defeasance of the loan. In this regard, the Vendor effectively nullified the loan by placing sufficient Government of Canada bonds in escrow with Computer Share to offset the debt obligations. The debt of 2017166 Ontario Limited is disclosed on the balance sheet of HREIT as an "acquisition liability", offset by an "acquisition asset" of the same dollar amount. The acquisition asset and liability are being reduced over the term of the debt which is due in 2010.

Subsequent to the acquisition of Cityplace, 2017166 Ontario Limited changed its name to HREIT Holdings 33 Corporation.

RESULTS OF OPERATIONS

Summary of Operating/Cash Flow Results

	Year Ended December 31 2006	Year Ended December 31 2005
Total revenue	$ 57,363,580	$ 18,443,543
Operating income	$ 32,741,820	$ 10,117,412
Income (loss) from continuing operations	$ (1,024,458)	$ 474,044
Income (loss)	$ (74,682)	$ 491,478
Cash from operating activities	$ 9,474,200	$ 6,637,066
Distributable income	$ 14,685,156	$ 5,779,916
Funds from operations (FF0)	$ 15,840,804	$ 5,285,624
Adjusted Funds from Operations (AFF0)	$ 12,318,394	$ 5,252,483
Distributions - total	$ 18,931,533	$ 13,025,222
- per unit	$ 0.28	$ 0.21

Per Unit

	2006 Basic	2006 Diluted	2005 Basic	2005 Diluted
Operating income	$ 0.485	$ 0.485	$ 0.283	$ 0.282
Income (loss) from continuing operations	$ (0.015)	$ (0.015)	$ 0.013	$ 0.013
Income (loss)	$ (0.001)	$ (0.001)	$ 0.014	$ 0.014
Cash from operating activities	$ 0.140	$ 0.140	$ 0.185	$ 0.185
Distributable income	$ 0.217	$ 0.217	$ 0.162	$ 0.161
Funds from operations (FFO)	$ 0.234	$ 0.234	$ 0.148	$ 0.147
Adjusted funds from operations (AFFO)	$ 0.182	$ 0.182	$ 0.147	$ 0.146

General

Overview

At the end of 2005, the expectation for 2006 was that HREIT would achieve a very significant increase in operating income, cash from operating activities and net income as a result of the projected growth in the property portfolio, combined with a full year of income for the properties which were acquired in 2005.

The operating income and cash flow results for 2006 were generally in accordance with expectations, with HREIT achieving a 224% increase in operating income and a 43% increase in cash from operating activities. After deducting amortization expense, however, HREIT incurred a net loss of $74,682. As discussed in greater detail in the following discussion, the variance between the actual net loss and the expected increase in net income in 2006 is due to a number of factors, including trust expenses and amortization charges which were higher than anticipated and the exclusion of rent payments which were funded from cash in escrow (please refer to page 12).

Net Income

Comparison to Prior Year

Analysis of Net Income (Loss)

	Year Ended December 31 2006	Year Ended December 31 2005	Increase (Decrease)
Operating income			
- rental properties	$ 31,715,121	$ 8,934,601	$ 22,780,520
- property management	856,098	586,529	269,569
- Trust	170,601	596,282	(425,681)
Total operating income	32,741,820	10,117,412	22,624,408
Financing expense			
Mortgage loans	14,071,613	2,685,715	11,385,898
Debentures	1,338,420	835,934	502,486
Total financing expense	15,410,033	3,521,649	11,888,384
Operating income, net of financing expense *	17,331,787	6,595,763	10,736,024
Trust expense	2,182,434	1,224,394	958,040
Income from continuing operations, before amortization *	15,149,353	5,371,369	9,777,984
Amortization	16,173,811	4,897,325	11,276,486
Income (loss) from continuing operations	(1,024,458)	474,044	(1,498,502)
Income (loss) from discontinued operations	949,776	17,434	932,342
Income (loss)	$ (74,682)	$ 491,478	$ (566,160)

The analysis of net income represents the re-formatting of balances from the Consolidated Statement of Loss in order to provide a more detailed assessment of the financial performance of the Trust. The components of operating income and financing expense, as disclosed in the analysis, agree to the segmented financial information in the notes to the financial statements, while all other line items agree to the Consolidated Statement of Loss. Accordingly, the analysis consists entirely of GAAP measurements, aside from two sub-totals (see asterisks).

Income from Continuing Operations, Before Amortization Expense

During 2006, net income from continuing operations, before amortization expense, increased by approximately $9.8 Million, compared to 2005. The increase in income reflects the following factors:

- an increase in operating income from rental properties of $22,780,520, primarily due to the increase in the property portfolio of HREIT since December 31, 2005;

- an increase in operating income from property management activities of $269,569. The increase mainly represents non-recurring sales commission income of $234,390 in regard to the sale of a condominium property in British Columbia;

- a decrease in operating income from Trust "operations" of $425,681. The operating income from Trust operations consists almost exclusively of interest income on excess cash reserves. The decrease in 2006 reflects the fact that operating income from Trust operations was comparatively high during 2005 as the completion of the unit and debenture offerings in 2005 resulted in relatively high levels of working capital;

- an increase in financing expense on mortgage loans of $11,385,898. As a percentage of operating income from rental properties, financing expense on mortgage loans increased from 30% during 2005 to 44% during 2006. The increase in the percentage amount mainly reflects an increase in the mortgage debt ratio for the portfolio of rental properties. As a percentage of total acquisition costs, the ratio of mortgage loans payable increased from 48.4% as of December 31, 2005 to 66.3% as of December 31, 2006;

- an increase in financing expense on convertible debentures of $502,486. As a percentage of operating income from rental properties, financing expense on convertible debentures decreased from 9% in 2005 to 4% during 2006. The decrease in the percentage amount reflects a change in the capital structure of the Trust; and

- an increase in Trust expense of $958,040, mainly due to the following factors:

  - a non-recurring expense of $160,000, representing the fee for changing the listing of HREIT from the TSX Venture Exchange to the Toronto Stock Exchange (TSX); and

  - an increase in fees for services rendered by Shelter Canadian of $568,190. The increase mainly reflects the implementation of a monthly service fee, effective January 1, 2006.

    As disclosed in the 2005 Annual Report, HREIT began paying a monthly fee for the services of Shelter Canadian Properties Limited during the first quarter of 2006. The total monthly service fee for 2006 was $965,286, representing 0.3% of the gross book value of the assets of HREIT, excluding cash, as of the date of the most recently issued financial statements. After accounting for the amortization of unit-based compensation relating to the options which were issued to Shelter Canadian at the inception of the Trust, the total service fee expense for 2006 was $984,906.

    During 2005, the total service fee expense was $416,716, comprised of a $400,000 fee for the six month period from June 1, 2005 to December 31, 2005 and amortization of unit-based compensation expense of $16,716. Please refer to "Related Party Transactions" on page 33 of this report, for additional information in regard to the administrative, asset management and property management services which are provided to HREIT by Shelter Canadian and the associated remuneration.

  - higher due diligence costs for non-acquired properties.

Loss from Continuing Operations, Including Amortization Expense

After considering amortization expense, HREIT incurred a loss from continuing operations of $1,024,458 during 2006, compared to income of $474,044 during 2005. The loss reflects total amortization charges of approximately $16.2 Million, compared to approximately $4.9 Million in 2005.

The increase in amortization charges mainly reflects the cumulative growth in the HREIT property portfolio. As a percentage of operating income, amortization expense remained relatively constant, increasing from 48.4% in 2005 to 49.4% in 2006.

Loss For the Year

After providing for the income from discontinued operations of $949,776, HREIT incurred a loss of $74,682 in 2006, compared to income of $491,478 in 2005.

Rent Payments Funded from Cash in Escrow

The operating results for 2006 exclude $1,340,276 of rent payments which were funded from cash in escrow, compared to $69,267 in 2005. As disclosed in the analysis of escrow funds on page 12, funds which are released from escrow to fund rent payments or supplement income do not have any impact on revenue. As a result, the Consolidated Statement of Income (Loss) reflects all of the operating and mortgage loan financing expenses pertaining to properties with "acquisition" escrow accounts, while excluding any cash inflows pertaining to rent payments and income supplements which are released from escrow in regard to vacant space. In summary, the comparability of annual operating results is significantly affected by the extent to which funds are released from escrow in regard to rent and income supplements.

COMPARISON TO PRECEDING QUARTER

Analysis of Net Income (Loss) - 2006 Fourth Quarter vs. 2006 Third Quarter

	Three Months Ended		
	December 31, 2006	September 30, 2006	Increase (Decrease)
Operating income			
- rental properties	$ 9,568,769	$ 8,895,499	$ 673,270
- property management	171,476	421,771	(250,295)
-Trust	65,230	34,522	30,708
Operating income	9,805,475	9,351,792	453,683
Financing expense			
Mortgage loans	4,490,348	4,356,878	133,470
Debentures	342,705	336,241	6,464
Total financing expense	4,833,053	4,693,119	139,934
Operating income, net of financing expense	4,972,422	4,658,673	313,749
Trust expense	509,626	757,616	(247,990)
Income from continuing operations, before amortization	4,462,796	3,901,057	561,739
Amortization	4,578,242	4,961,063	(382,821)
Income (loss) from continuing operations	(115,446)	(1,060,006)	944,560
Income from discontinued operations	-	882,827	(882,827)
Net income (loss)	$ (115,446)	$ (177,179)	$ 61,733

During the fourth quarter of 2006, HREIT incurred a loss from continuing operations of $115,446, compared to a loss from continuing operations of $1,060,066 in the third quarter of 2006. The improvement in the results from continuing operations reflects the following factors:

- an increase in operating income from rental properties of $673,270, mainly due to an improvement in the operating results of the portfolio of income-producing properties. Aside from the sale of the light industrial property on August 1, 2006, there were not any changes in the portfolio of income-producing properties between the third and fourth quarters of 2006;

- a decrease in operating income from property management activities of $250,295. The decrease reflects the fact that operating income from property management activities was comparatively high during the third quarter of 2006, as the non-recurring sales commission revenue of $234,390 was recorded during the third quarter;

- an increase in financing expense on mortgage loans of $133,470. As a percentage of operating income from rental properties, financing expense on mortgage loans decreased from 49% during the third quarter of 2006 to 47% during the fourth quarter of 2006. The decrease in the percentage amount reflects the increase in operating income which was generated from the existing property portfolio;

- a decrease in trust expense of $247,990. The decrease mainly reflects a decrease in TSX filing and other fees, partially offset by an increase in service fees. TSX filing and other fees were comparatively high during the third quarter of 2006 due to the fees associated with the TSX listing. Service fees increased from $263,376 in the third quarter of 2006, to $309,357 in the fourth quarter of 2006; and

- a decrease in amortization expense of $382,821. Amortization expense was comparatively higher during the third quarter of 2006 due to the reduction in the book value of CRESI.

The operating results for the fourth quarter of 2006 were also affected by the funding of rent payments and income supplements from funds in escrow. During the fourth quarter of 2006, the rent payments and income supplements funded from escrow amounted to $917,089, compared to $359,242 during the third quarter of 2006.

During the third quarter of 2006, HREIT generated income from discontinued operations of $882,827, primarily due to the gain on the sale of the light industrial property on August 1, 2006. During the fourth quarter of 2006, there was not any income associated with discontinued operations. After providing for income from discontinued operations, HREIT completed the fourth quarter of 2006 with a loss of $115,446, compared to a loss of $177,179 during the third quarter of 2006.

Operating Income

Operating Segments

Analysis of Operating Income

	Percentage of Total Operating Income Year Ended December 31, 2006	2005
Retail	47 %	44 %
Office	35 %	27 %
Light Industrial	15 %	17 %
Total - Income Properties	97 %	88 %
Property management	2 %	6 %
Trust	1 %	6 %
Total	100 %	100 %

The operations of HREIT encompass the acquisition and management of a growing portfolio of income-producing properties, as well as the ownership of a property management company based in Calgary, Alberta. The portfolio of Income Properties includes light industrial, office and retail properties located across western Canada and in Ontario and the Northwest Territories. For financial reporting purposes, the operating results of HREIT are segmented geographically and by property type, with the operating results for the property management company categorized separately under "Property Management/Alberta". The operating results pertaining to overall asset management and administrative activities are also categorized separately under the heading of "Trust".

The portfolio of Income Properties is the primary source of operating income accounting for 97% and 88% of the total operating of income of HREIT in 2006 and 2005, respectively.

Growth in Operating Income

During 2006, the operating income of HREIT increased by approximately $22.6 Million or 223%, compared to 2005. The increase is attributable to the growth in the real estate portfolio of HREIT since December 31, 2005, and particularly since June 30, 2005.

During 2005, 42 properties, with a combined purchase price of $258.6 Million, contributed to the operating income of HREIT, with the first acquisition occurring on the inception date of HREIT on February 23, 2005. The acquisition date for 29 of the 42 properties occurred in the second half of the year. During the third quarter of 2005, HREIT experienced its highest period of growth, with the property portfolio increasing by 25 properties, representing an increase in the acquisition cost of the total portfolio of approximately $200 Million.

During 2006, 52 properties, with a combined purchase price of $394.4 Million, contributed to operating income, including the light industrial property which was sold on August 1, 2006.

The increase in the operating income in 2006 is also partially due to an improvement in the operating results of properties which have been in the portfolio for a full year of operation. As HREIT did not commence active operations until the end of February 2005, a full year-to-year comparison of operating results is not possible as of December 31, 2006. The most informative comparison is one in which 2005 and 2006 quarterly results are compared for properties which were acquired by HREIT during, or prior to, the high growth period in the third quarter of 2005. Specifically, there were 37 properties in the property portfolio of HREIT as of September 30, 2005, all of which are still in the property portfolio as of December 31, 2006.

An analysis of the operating results of the 37 properties is provided below. As disclosed in the analysis, the revenue and operating income for the 37 properties which have been owned by the Trust since September 30, 2005 has increased by 8.7% and 13%, respectively, based on a comparison of the fourth quarter results in 2005 and 2006.

As previously disclosed, the operating results of HREIT for 2006 exclude $1,340,276 of rent and income supplements which were funded from cash in escrow, compared to $69,267 in 2005. As disclosed in the analysis, the operating income for the 37 properties increased by 23.3% in 2006, compared to 2005, after adjusting for the revenue and income supplements for the applicable properties.

	Three Months Ended December 31		Increase	
	2006	2005	Amount	%
Total revenue	$ 9,586,740	$ 8,820,187	$ 766,553	8.7 %
Net operating income	$ 6,018,682	$ 5,327,914	$ 690,768	13.0 %
Net operating income, including rent and income supplements	$ 6,652,978	$ 5,397,217	$ 1,255,761	23.3 %

Revenue Analysis

General

Total revenues, 2006	$57,363,580
Total revenues, 2005	$18,443,543

During 2006, total revenues increased by approximately $38.9 Million, compared to 2005. The increase is attributable to the growth in the real estate portfolio of HREIT since December 31, 2005 and particularly since June 30, 2005.

Geographic Diversification

The investment strategy of HREIT is to create a real estate portfolio which is diversified geographically and by property type. As reflected in the chart below, the highest concentration of properties is in Manitoba and Ontario, with the two provinces accounting for 73% of the total revenues of the Trust. The Manitoba portfolio consists of 22 properties, 17 of which are located in Winnipeg, while the Ontario portfolio consists of 11 properties located throughout the province.

Analysis of Revenues by Geographic Market Segment

	Percentage of Total Revenue For the Year Ended December 31	
	2006	2005
Income Properties		
Manitoba	40 %	34 %
Ontario	33 %	29 %
Alberta	8 %	8 %
Northwest Territories	7 %	7 %
Saskatchewan	5 %	2 %
British Columbia	1 %	1 %
	94 %	81 %
Property Management		
Alberta	6 %	19 %
	100 %	100 %

The increase in the percentage component for the Manitoba portfolio reflects the acquisition of three large office buildings in Winnipeg in 2006, including Cityplace. The decrease in the percentage component for property management operations mainly reflects the increase in the portfolio of income-producing properties.

Diversification by Property Sectors

The "target" objective of HREIT is to create a portfolio which has a relatively even distribution of properties between the industrial, retail and office sectors. It is anticipated, however, that growth will not occur evenly by sector and that the proportion of properties in each sector may fluctuate significantly over the short-term. As reflected in the chart below, the retail property sector represents the largest segment of the HREIT portfolio, as of December 31, 2006.

Analysis of Revenues by Business Sector

	Percentage of Total Revenue For the Year Ended December 31	
	2006	2005
Income Properties		
Retail	45 %	40 %
Office	38 %	28 %
Industrial	11 %	13 %
	94 %	81 %
Property Management	6 %	19 %
	100 %	100 %

The increase in the ranking of the portfolio of office properties, from 28% in 2005 to 38% in 2006, also reflects the acquisition of three large office/retail buildings in Winnipeg in 2006, including Cityplace.

Property Management Operations

The investment in CRESI is also serving to enhance the overall diversification of HREIT. Although the proportional contribution of CRESI to the total operating income of HREIT declined during 2006 as additional properties were acquired, the investment in CRESI will continue to enhance the overall status of the Trust in terms of the diversity of operating income.

Lease Analysis

Tenant Profile

The lease portfolio of HREIT consists of a high percentage of tenancies with well-established operations, offering strong covenants, and which significantly enhance the overall stability and quality of the tenant base of the Trust. As reflected in the following chart, the fifteen largest tenants in the HREIT portfolio account for 47.7% of the total leased space, as of December 31, 2006, while 19.2% of the total space is secured with leases from the federal government and from the Northwest Territories and the provinces of Manitoba and Saskatchewan.

Largest tenants by leased area

	Area leased (square feet)	Percentage of Portfolio	Number of locations
Province of Manitoba	337,074	7.82 %	3 (5 leases)
Government of Canada	291,408	6.76 %	6 (8 leases)
Northern Group Retail Ltd.	258,960	6.01 %	1
Zellers	232,225	5.39 %	2
International Truck	218,570	5.07 %	1
Province of Saskatchewan	145,603	3.38 %	3
Purolator Courier Ltd.	113,800	2.64 %	1
Minacs Worldwide Inc.	103,179	2.39 %	1
Wal-Mart	63,000	1.46 %	1
Wellington Polymer	55,000	1.28 %	1
Government of the Northwest Territories	53,081	1.23 %	1 (4 leases)
The Great-West Life Assurance Co.	49,524	1.15 %	1
Pritchard Metalfab Inc.	48,100	1.12 %	1
Convergys	44,083	1.02 %	1
White Wood Distributors Ltd.	43,364	1.01 %	1
	2,056,971	47.72 %	

* The number of leases corresponds to the number of locations, except as noted.

Occupancy Levels

HREIT strives to maximize occupancy levels throughout its portfolio of income-producing properties. The overall occupancy level for the entire portfolio increased from 93% as of December 31, 2005 to 94% as of December 31, 2006.

The following table presents the gross leasable area (GLA) and occupancy for the past five quarters by industry sector:

	Industrial		Retail		Office		Total	
	GLA	Occ.	GLA	Occ.	GLA	Occ.	GLA	Occ.
2006								
December 31	1,148,107	99.0 %	1,933,220	90.0 %	1,228,975	96.0 %	4,310,302	94.0 %
September 30	1,148,107	99.0 %	1,926,519	89.0 %	1,228,975	96.0 %	4,303,601	94.0 %
June 30	1,195,214	98.0 %	1,931,778	90.0 %	1,269,690	94.0 %	4,396,682	93.0 %
March 31	863,253	99.0 %	1,916,304	92.0 %	671,453	97.0 %	3,451,010	95.0 %
2005								
December 31	863,253	95.0 %	1,899,220	92.0 %	482,685	95.0 %	3,245,158	93.0 %

Lease Maturities

The long-term objective of HREIT is to create a property portfolio with a relatively balanced level of lease maturity dates throughout each property sector. Tenants in multi-tenant properties in all asset classes typically lease for terms of four to five years, whereas single tenants in industrial properties typically lease for longer terms. A balanced lease maturity schedule would, therefore, be expected to have lease expiries of 10% to 15% in any one year.

As the property acquisitions of HREIT encompassed a relatively high percentage of leases expiring in 2007, the lease maturity schedule of HREIT is more heavily weighted in 2007. As disclosed on the following chart, leases for 767,741 square feet, representing 17.8% of the total portfolio have maturity dates in 2007.

Leases Expiring	2007	2008	2009	2010	2011	Weighted Average Term to Maturity
Industrial						
GLA	68,191	21,458	281,101	11,338	33,571	6.84
% of Industrial Portfolio	5.9 %	1.9 %	24.5 %	1.0 %	2.9 %	
Retail						
GLA	409,703	137,131	338,267	124,572	238,402	4.87
% of Retail Portfolio	21.2 %	7.1 %	17.5 %	6.4 %	12.3 %	
Office						
GLA	289,847	155,665	157,318	85,545	46,140	4.47
% of Office Portfolio	23.6 %	12.7 %	12.8 %	7.0 %	3.8 %	
Total Portfolio						
GLA	767,741	314,254	776,686	221,455	318,113	5.03
% of Total Portfolio	17.8 %	7.3 %	18.0 %	5.1 %	7.4 %	

It is anticipated that a high percentage of the leases which mature in 2007 will be renewed. The following chart provides a summary of the status of 2007 lease renewals as of March 1, 2007.

	GLA	% of Total
Leases renewing	296,238	38.6 %
Tenants vacating	64,757	8.4 %
Renewals under negotiation	269,577	35.1 %
Tenants not yet contacted	137,169	17.9 %
	767,741	100.0 %

Operating Cost Analysis

Analysis of Operating Cost Ratio by Business Sector

	Operating Cost Ratio Year Ended December 31	
	2006	2005
Income Properties		
Office	47 %	46 %
Retail	40 %	38 %
Industrial	25 %	25 %
Total income properties	41 %	39 %
Property Management	76 %	82 %
Total portfolio	43 %	47 %

The fluctuation in the operating cost ratio among property sectors mainly reflects a difference in the manner in which operating costs are treated under the lease terms for each property sector. In general, office and retail properties have higher operating costs than industrial properties and the costs are typically paid by the Landlord and subsequently recovered from tenants through additional rent charges. For industrial properties, a higher percentage of operating costs are paid directly by the tenant, particularly for the single tenant industrial properties which comprise a large percentage of the HREIT industrial property portfolio.

Overall, there was a modest increase in the operating cost ratio for the entire portfolio of income-producing properties in 2006, with the ratio increasing from 39% in 2005 to 41% in 2006.

The decrease in the operating cost ratio for property management operations reflects an increase in property management revenues due to non-recurring sales commission revenue of $280,068.

Funds from Operations (FFO)/Adjusted Funds from Operations (AFFO)

HREIT considers "Funds from Operations ("FFO") and "Adjusted Funds from Operations" ("AFFO") to be meaningful additional measures of operating performance, as FFO measures the cash generating abilities of HREIT, while AFFO is indicative of available cash flow after capital reinvestment transactions.
As previously disclosed, the property acquisitions of HREIT have encompassed the establishment of escrow funds in excess of $21.5 Million. Amounts released from escrow accounts, for purposes of subsidizing rent payments or operating income, are included in the FFO and AFFO calculation, while amounts released from escrow for purposes of funding lease acquisition or non-recoverable long-term maintenance expenditures are only included in the AFFO calculation.

During 2006, FFO increased by $10,555,180 or 200%, compared to 2005, while AFFO increased by $7,065,911 or 135%. On a per unit basis, FFO increased by $0.086 per unit, while AFFO increased by $0.035 per unit.

Funds from Operations/Adjusted Funds from Operations

	Year Ended December 31	
	2006	2005 (restated)
Net income (loss)	$ (74,682)	$ 491,478
Add (deduct):		
Rent payments and NOI supplements funded from escrow	1,340,276	69,267
Total amortization expense	16,173,811	4,897,325
Amortization of deferred financing fees	(465,639)	(172,446)
Future income taxes	(247,800)	-
Gain on sale of asset	(885,162)	-
Funds from operations	15,840,804	5,285,624
Add (deduct)		
Accrued rental revenue	(1,024,628)	(131,926)
Above market leases	686,533	307,140
Below market leases	(1,339,521)	(447,583)
Unit based compensation	19,620	224,947
Interest payments - convertible debentures	(905,680)	(452,850)
GAAP interest - convertible debentures	1,338,420	835,934
Lease acquisition costs	(4,327,459)	(595,657)
Non-recoverable long-term maintenance expenditures	(279,257)	-
Lease acquisition and non-recoverable long-term maintenance expenditures funded from escrow	2,309,562	226,854
Adjusted funds from operations	$ 12,318,394	$ 5,252,483
Funds from operations per unit		
- basic	$ 0.234	$ 0.148
- diluted	$ 0.234	$ 0.147
AFFO per unit		
- basic	$ 0.182	$ 0.147
- diluted	$ 0.182	$ 0.146

Funds from Operations ("FFO") and Adjusted Funds from Operations ("AFFO") are not defined by GAAP and are non-GAAP financial measures of operating performance which are widely used by the real estate industry. FFO has been calculated in accordance with the recommendations of Real Property Association of Canada ("RealPac") and on a basis which is consistent with the method prescribed by GAAP for calculating earnings per unit. FFO and AFFO should not be construed as an alternative to net income or cash flow from operating activities determined in accordance with GAAP. The method that is used by HREIT for calculating FFO and AFFO may differ from other issuers' methods and accordingly, may not be comparable with measures used by other issuers.

Summary of Quarterly Results

Quarterly Analysis For the Year Ended December 31

	HREIT 2006 Q4	Q3	Q2	Q1 (2) (restated)
Total revenue	$ 17,306,452	$ 16,199,859	$ 12,826,615	$ 11,030,654
Operating income	$ 9,805,475	$ 9,351,792	$ 7,445,291	$ 6,139,262
Net income (loss)	$ (115,446)	$ (177,179)	$ 152,618	$ 65,325
PER UNIT				
Operating income				
- basic	$ 0.145	$ 0.138	$ 0.110	$ 0.092
- diluted	$ 0.145	$ 0.138	$ 0.110	$ 0.092
Net income (loss)				
- basic	$ (0.002)	$ (0.003)	$ 0.002	$ 0.001
- diluted	$ (0.002)	$ (0.003)	$ 0.002	$ 0.001

Quarterly Analysis For the Year Ended December 31

	HREIT/WPVC Inc. 2005 Q4 (2) (restated)	Q3 (restated)	Q2 (restated)	Q1 (1) (restated)
Total revenue	$ 10,373,467	$ 4,993,753	$ 2,221,231	$ 855,092
Operating income	$ 5,996,618	$ 2,841,387	$ 1,049,717	$ 229,690
Net income (loss)	$ 9,606	$ 549,841	$ (18,147)	$ (49,822)
PER UNIT				
Operating income				
- basic	$ 0.089	$ 0.053	$ 0.060	$ 0.071
- diluted	$ 0.089	$ 0.052	$ 0.059	$ 0.071
Net income (loss)				
- basic	$ -	$ 0.010	$ (0.001)	$ (0.016)
- diluted	$ -	$ 0.010	$ (0.001)	$ (0.016)

Notes:

1. HREIT was created on February 23, 2005, pursuant to a Plan of Arrangement whereby WPVC Inc., a capital pool company listed on the TSX Venture Exchange, reorganized into a real estate investment trust under the name of HREIT, with the common shares of WPVC Inc. being exchanged for trust units of HREIT on a five for one basis.

   The operating results for the first quarter of 2005 reflect the operating results of WPVC Inc. for the 53-day period from January 1, 2005 to February 22, 2005. For comparative purposes, the Per Unit amounts, prior to February 22, 2005, have been adjusted to reflect the exchange of five common shares for one trust unit.

2. The restatement of the quarterly results for the first quarter of 2006 and the fourth quarter of 2005 reflects a reduction to total revenue and operating income for amounts pertaining to discontinued operations.

CAPITAL RESOURCES AND LIQUIDITY

Operating Activities

General

During 2006, HREIT generated cash from operating activities of $9,474,200, compared to $6,637,066 during 2005, representing an increase of approximately $2.8 Million. The increase mainly reflects the increase in the income of the Trust from continuing operations, before amortization expense, of approximately $9.6 Million, largely offset by the following variables:

- an increase in lease acquisition costs and long-term maintenance expenditures of $5,568,517;

- an increase in the non-cash component of rental revenue of approximately $1,405,247; and
- a net increase in non-cash operating items of $548,631.

Lease Acquisition Costs/Long-Term Maintenance Expenditures

Lease acquisition costs are mainly comprised of leasehold improvement costs for new and renewing leases and associated leasing commissions. Long-term maintenance expenditures are comprised of recoverable and non-recoverable costs. Recoverable costs consist primarily of costs which are required to return a property to its original condition including costs for the replacement or upgrading of the major mechanical components of a building, the replacement of roofs, major repairs or upgrades to parking lots, and the upgrading or renovation of common areas. Non-recoverable costs generally consist of repairs or improvements to structural components of buildings, such as exterior wall repairs.

During 2006, lease acquisition costs amounted to $4,327,459, while long-term maintenance expenditures amounted to $1,997,487 of which $1,718,230 or 86% were recoverable costs. Although lease acquisition costs are incurred throughout the HREIT portfolio, depending on the timing of lease expiry or renewal dates, approximately $3.8 Million or 88% of the costs for 2006 pertain to six properties. Similarly, approximately $1.4 Million or 71% of the long-term maintenance expenditures for 2006 pertain to major renovation projects at three properties.

A summary of lease acquisition costs and long-term maintenance expenditures is provided in the following chart.

Analysis of Lease Acquisition Costs and Long-Term Maintenance Expenditures

	Year Ended December 31, 2006		
Property	Lease Acquisition Costs	Long-Term Maintenance Expenditures	
Southland Mall	$ 1,288,888	$ -	
110 Lowson Crescent	742,838	-	
Lincoln Centre	414,999	450,484	(1)
Speedvale Centre	886,398	-	
650 Riverview	-	538,242	(3)
Crossroads Centre	235,274	-	
NewPort Center	227,915	436,551	(2)
Other	531,147	572,210	
	$ 4,327,459	$ 1,997,487	

Notes:

1. Costs consist primarily of roof replacement costs and repairs to the building exterior.
2. Costs consist primarily of repairs to the building exterior facade and lobby and common area renovations.
3. Costs consist primarily of roof repairs.

Funding of Cash Distributions

Cash Distribution Policy

The stated policy of HREIT is to distribute cash to the Unitholders, on a monthly basis, in an amount which is approximately equal to 90% of the annual "Distributable Income" of the Trust. As disclosed in the first chart below, distributable income is equal to the income or loss of HREIT adjusted for certain non-cash transactions, such as adding back amortization expense for income properties and intangible assets and converting interest expense on debentures to a cash basis. Cash distributions may also be established at a specific level, as determined by the Trust and, as such, may exceed distributable income.

Distributable Income

Distributable income is a non-GAAP measurement which differs from "cash from operating activities", as disclosed in the Consolidated Statement of Cash Flows in the audited financial statements. A reconciliation between distributable income and the cash from operating activities is provided in the second chart below.

Distributable Income

	Year Ended December 31	
	2006	2005 (restated)
Net income (loss)	$ (74,682)	$ 491,478
Add (deduct):		
Accrued rental revenue	(1,024,628)	(131,926)
Above market leases	686,533	307,140
Below market leases	(1,339,521)	(447,583)
Interest payments - convertible debentures	(905,680)	(452,850)
GAAP interest - convertible debentures	1,338,420	835,934
Future income taxes	(247,800)	-
Unit based compensation	19,620	224,947
Total amortization expense	16,173,811	4,897,325
Amortization of lease acquisition costs	(396,031)	(13,816)
Rent payments and NOI supplements funded from escrow	1,340,276	69,267
Gain on sale of asset	(885,162)	-
Distributable income	$ 14,685,156	$ 5,779,916
Per unit		
- Basic	$ 0.217	$ 0.162
- Diluted	$ 0.217	$ 0.161

Reconciliation between Distributable Income and Cash From Operating Activities

	Year Ended December 31	
	2006	2005 (restated)
Distributable income	$ 14,685,156	$ 5,779,916
Amortization of lease acquisition costs	396,031	13,816
Amortization of mortgage premiums	(112,246)	-
Rent payments and NOI supplements funded from escrow	(1,340,276)	(69,267)
Cash flow - discontinued operations	(82,961)	(23,550)
Amortization - discontinued operations	18,347	6,116
	13,564,051	5,707,031
Lease acquisition costs	(4,327,459)	(595,657)
Long-term maintenance expenditures	(1,997,487)	(160,772)
Change in non-cash operating costs	2,235,095	1,686,464
Net cash from operating activities, per Statement of Cash Flow	$ 9,474,200	$ 6,637,066

During 2006, the total distributions to Unitholders amounted to $18,931,533, including the value of the units which were issued under the Distribution Reinvestment Plan at a value of $24,892. As disclosed in the following summary, the total cash distributions of HREIT for 2006 exceeded distributable income by $4,246,377 and cash from operating activities by $9,457,333.

	Year Ended December 31	
	2006	2005 (restated)
Total distributions	$ 18,931,533	$ 13,025,222
Distributable income	$ 14,685,156	$ 5,779,916
Excess of cash distributions over distributable income	$ (4,246,377)	$ (7,245,306)
Cash provided by operating activities	$ 9,474,200	$ 6,637,066
Excess of cash distributions over cash provided by operating activities	$ (9,457,333)	$ (6,388,156)

Cash Distribution Shortfall

The shortfall between cash distributions and cash from operating activities effectively represents a return of capital to the Unitholders and serves to reduce the investment capacity of the Trust.

It is anticipated that operating cash flows will continue to increase as additional properties are acquired and as leasehold improvements are completed and overall occupancy levels and rental rates increase. Although the cash distribution is expected to continue to exceed operating cash flows in 2007, it is anticipated that the shortfall between the cash distribution amount and operating cash flows will be reduced over time.

Financing/Investment Activities

The chart on page 30 provides a summary of the cash flow activities of the Trust.

As disclosed in the chart, the net cash provided by financing activities, excluding cash distributions exceeded the net cash used in investment activities by approximately $5.3 Million during 2006. Financing activities consisted exclusively of transactions related to mortgage loan financing, while investing activities consisted primarily of transactions associated with the acquisition and development of new properties. Also included in investment activities are asset additions of $1,908,769, the details of which are provided in note 2 of the chart.

After providing for the cash inflows from discontinued operations and operating activities and the cash outflow in regard to cash distributions, the net cash outflow for 2006 was $1,489,485. The net cash outflow during 2006 of $1,489,485, combined with the operating cash balance of $23,639,190, resulted in an ending cash balance of $22,149,645. After accounting for the cash in escrow, the unrestricted cash balance as of December 31, 2006 was $4,799,708.

Cash Flow Analysis (note 1)

	Total
Financing activities	
Mortgage proceeds	$ 43,342,360
Mortgage principal payments	(4,399,628)
Financing costs	(1,411,685)
Total financing	37,531,047
Investing activities	
Property acquisitions	(31,280,953)
Asset additions (note 2)	(1,908,769)
Deposits refunded	960,000
Total investing	(32,229,722)
Net cash inflow (outflow) of investment capital	5,301,325
Discontinued operations	2,641,631
Operating activities	9,474,200
Cash distributions	(18,906,641)
Net cash inflow (outflow)	**(1,489,485)**
Cash, beginning of period	**23,639,130**
Cash, end of period	**22,149,645**
Cash in escrow	**(17,349,937)**
Unrestricted cash	**$ 4,799,708**

Note 1 - GAAP Measurements

The preceding cash flow analysis represents the re-formatting of balances from the Consolidated Statement of Cash Flows in the audited financial statements in order to provide Unitholders with direct depiction of the net inflow/outflow of investment capital, before considering the impact of operating activities and cash distributions. The components of financing activities, investing activities, operating activities and discontinued operations, as disclosed in the analysis, agree to the Consolidated Statement of Cash Flows with the exception of cash distributions which are excluded from financing activities and disclosed as a separate line item. The order of presentation of financing, investing, discontinued operations and operating activities also differs from the Consolidated Statement of Cash Flows, in order to derive the sub-total entitled "net inflow (outflow) of investment capital". Cash in escrow has also been deducted from the ending cash balance for purposes of disclosing the amount of unrestricted cash as of December 31, 2006. Aside from the exclusion of cash distributions from financing activities and the sub-totals entitled "net inflow (outflow) of investment capital" and "uninvested cash", the analysis consists entirely of GAAP measurements.

Note 2 - Asset Additions

Asset additions consist of the following items:

Contingent consideration:	
Speedvale Mall	$ 562,500
Crossroads	93,843
2005 acquisition costs incurred in 2006	82,692
Building additions at 110 Lowson (completion of 2005 construction project)	47,798
Equipment additions at CRESI	26,860
Asset additions included in prepaid construction costs	1,657,576
	2,471,269
Less accounts payable	(562,500)
Cash outlay - asset additions	$ 1,908,769

Working Capital Requirements

General

On an annual basis, HREIT is generating sufficient cash from operating activities to fully fund operating costs and mortgage loan debt service costs for its entire portfolio of income-producing properties, as well as interest payable on convertible debentures and trust expenses.

The working capital reserves of HREIT are used to fund property acquisitions and a portion of the monthly cash distributions, as well as lease acquisition costs and long-term maintenance expenditures.

Over the longer term, it is anticipated that the incremental revenue from new leasing activity will exceed the initial cash outlays associated with lease acquisition costs and result in an increase in cash inflows. Recoverable long-term maintenance expenditures are recovered through common area maintenance charges, aside from costs which are attributable to vacant space and costs which are specifically deemed to be non-recoverable under the terms of certain leases.

Projected Capital Expenditures

Property Acquisitions

During the first quarter of 2007, HREIT completed the acquisition of a 50% interest in a commercial property in Winnipeg and three industrial properties in Alberta. The equity investment for the four properties is approximately $6.8 Million.

HREIT is actively pursuing a number of additional property acquisitions and it is anticipated that several properties will be added to the portfolio during the year.

Leasehold Improvement and Major Renovation/Upgrades

As disclosed in the following chart, leasehold improvement and major renovation and upgrade costs for 2007, are projected at approximately $7.8 Million, of which $3.3 Million are to be funded from funds in escrow.

Projected Leasing and Property Improvement Costs

	Year Ended December 31, 2006		
Property	Lease Acquisition Costs	Long-Term Maintenance Expenditures	Escrow Funds
Southland Mall	$ 1,230,000	$ 60,000	$ 1,230,000
Lincoln Centre	1,096,600	110,000	800,000
Speedvale Centre	78,600	196,400	275,000
Crossroads Centre	398,300	-	-
NewPort Center	629,400	890,000	-
Suncoast	207,400	-	-
Portage Place	1,001,700	-	1,000,000
Ecco	-	180,000	-
650 Riverview	-	899,000	-
Chemainus	-	240,500	-
280 Broadway	-	270,000	-
Other	108,000	155,000	-
	$ 4,750,000	$ 3,000,900	$ 3,305,000

In 2008, HREIT is planning to undertake improvements of approximately $1.3 Million at Cityplace, comprised of repairs to the parking garage, at an estimated cost of $540,000 and leasehold improvement costs of approximately $760,000.

In the future, HREIT is also planning to add two additional levels of parking to the existing 14-level parkade at the Medical Arts Building, resulting in approximately 100 additional parking stalls. The expansion of the parkade is being planned in anticipation of the increased demand for parking, following the construction of the new 695,000 square foot Manitoba Hydro Head Office building, which is scheduled to be completed in 2008. The site of the Manitoba Hydro building is adjacent to the Medical Arts Building.

Sources of Capital

Short-term

As of December 31, 2006, the working capital balance of HREIT is $19,588,304, including cash in escrow of $17,349,937. The total cash balance, as of December 31, 2006, is $22,149,645, including cash in escrow.

As previously disclosed, HREIT raised gross proceeds of $10 Million from a private placement of trust units in January 2007 and initiated a public debenture offering in February 2007 in the maximum aggregate principal amount of $42 Million. Financing proposals for $4.5 Million of additional mortgage loans are under negotiation with lenders.

The total year end cash balance, combined with the proceeds from the unit offering and the projected proceeds from the debenture offering and additional mortgage financing, less financing and issue costs, amounts to approximately $76 Million. In comparison, the current first quarter cash requirements for property acquisitions, leasehold improvements and major renovation and upgrade costs amount to $14.5 Million. In summary, HREIT has sufficient cash reserves to fulfill all of its projected funding commitments for the immediate future, including cash distributions.

Longer Term

In addition to the refinancing proposals which have been completed or are in process in 2007, the additional financing capacity for under-leveraged properties is approximately $55 Million. Accordingly, the refinancing of under-leveraged properties will continue to serve as a primary source of additional capital, beyond the first quarter of 2007.

Given the strong performance of HREIT since its inception in February 2005, it is also anticipated that any future debenture or trust unit offerings will be well received by the marketplace and will also serve as a source of investment capital. HREIT may also exchange trust units for real property acquisitions.

Trends

As summarized in the chart on page 31, HREIT is undertaking extensive improvements to a number of the properties in its portfolio, including in excess of $3.3 Million in improvements which are being funded from pre-established escrow accounts. As the improvements are completed and vacant space is re-leased, it is anticipated that there will be a very significant increase in the revenue base of the property portfolio.

As a result of the positive impact of the property improvements, combined with the projected improvement in the financial results of stabilized properties and the anticipated increased in revenue from new property acquisitions, HREIT is expected to experience another year of strong growth in operating income and cash flow results in 2007. As amortization charges will continue at high levels, HREIT is expected to incur a net loss in 2007 while continuing to operate with a cash distribution payout ratio which exceeds operating cash flows.

Contingent Considerations

As disclosed in Note 24 of the audited financial statements, the purchase price for Southland Mall and Cityplace encompassed a potential price increase in the event that actual revenue or income amounts exceed predetermined levels. A specific amount for the potential price increase is not disclosed in the financial statements for the three properties, as the amount of the potential price increase cannot be reasonably estimated.

There was also contingent consideration associated with the acquisition of Crossroads Centre and Speedvale Centre, however, the additional cost was finalized in 2006, resulting in an increase in the purchase price of $96,682 and $562,500, respectively.

RELATED PARTY TRANSACTIONS

Shelter Canadian Properties Limited ("Shelter Canadian")

Asset and Property Management Services

The Declaration of Trust for HREIT provides the Trustees with the power to appoint an Administrator of the Trust with responsibility for administering the affairs of the Trust on a day-to-day basis and performing the record-keeping and reporting functions of the Trust, subject to the overriding authority of the Trustees over the management of the Trust. Pursuant to the Declaration of Trust, Shelter Canadian was appointed to act as the Administrator of HREIT in accordance with the terms of the Services Agreement. As its initial remuneration for the services provided under the Services Agreement, Shelter Canadian received "Administrator Options", consisting of options to acquire 50,000 trust units at a price of $0.50 per unit. The granting of the Administrator Options is a "related party transaction", as defined under Policy 5.9 of the TSX Venture Exchange. The options were exercised by Shelter Canadian on the closing date of the Qualifying Transaction pursuant to the requirements of the TSX Venture Exchange.

As the scope of the services expands over time, the Services Agreement provides for the remuneration of Shelter Canadian to be established at a level which is to commensurate with customary comparable market asset management fees, subject to the discretion of the Governance, Compensation and Nominating Committee of the Board of Trustees.

In October 2005, the Committee approved a fee of $400,000 for the services of Shelter Canadian for the six month period ended December 31, 2005. A payment date of October 2005, for the entire fee was also approved by the Committee. The fee of $400,000 represents 0.14% of the gross book value of the assets of HREIT, as of September 30, 2005.

In January 2006, the Committee determined that the remuneration of Shelter Canadian, pursuant to the Services Agreement, should be amended to be more comparable with market asset management fees. For the year ending December 31, 2006, the Committee approved a monthly service fee equal to 0.3% of the gross book value of the total assets of the Trust, excluding cash, as of the date of the most recently issued financial statements. Payment of the fee is to occur on a monthly basis, on the last day of each month. In February 2007, the 0.3% service fee was extended to June 30, 2007.

Shelter Canadian is also the Property Manager for HREIT, pursuant to the Property Management Agreement. Shelter Canadian has a direct involvement in the management of all of the income properties in the portfolio of HREIT and acts as Property Manager for the majority of properties. The on-site property management function is sub-contracted for certain properties in order to maintain continuity between the tenants and the incumbent Property Manager or due to such factors as the remoteness of the property location or the nature of the acquisition process.

Mr. Arni Thorsteinson, the President and Chief Executive Officer of HREIT and a Trustee, is a Director and President of Shelter Canadian and the President of the parent corporation of Shelter Canadian, 2668921 Manitoba Ltd. As of February 2007, The Governance, Compensation and Nominating Committee is comprised of the independent Trustees of HREIT. Prior to February 2007, Mr. Thorsteinson was a Committee member and, as such, Mr. Thorsteinson abstained from all discussions and voting in regard to the approval of fees for asset management services.

Consolidated Real Estate Services Inc. (CRESI)

Shelter Canadian provides executive management services to CRESI, with executive personnel of Shelter Canadian acting in the capacity of President and Vice President of CRESI and serving as directors, and with a senior employee of Shelter Canadian fulfilling the position of the Regional Manager for the Western Canada commercial property portfolio of CRESI.

Other Shelter Canadian employees provide assistance to CRESI in various capacities, including supervision of website design services provided by a third party contractor, website maintenance, payroll and benefit administration, operating policy development, placement and administration of property insurance and marketing. For providing the additional services, Shelter Canadian receives an annual cost recovery fee of $150,000 per annum.

Marion Street Business Park

In June 2006, HREIT acquired a 100% beneficial interest in the Marion Street Business Park, including the 20% beneficial interest which was held by 2668921 Manitoba Limited.

The acquisition of the Marion Street Business Park was approved by the independent trustees of HREIT and by the TSX Venture Exchange. Mr. Thorsteinson abstained from voting on the resolution approving the transaction.

The 2668921 Transaction was exempt from the formal valuation and minority security holder approval requirements of Policy 5.9 of the Exchange and applicable securities laws due to the fact that the acquisition of the property represents less than 25% of the current market capitalization of HREIT. The purchase price for the 2668921 Transaction represents less than 1% of the current market capitalization of HREIT.

Airport Place

In March 2007, HREIT acquired a 50% beneficial interest in Airport Place. The remaining 50% beneficial interest is owned by 2668921 Manitoba Limited.

The acquisition of the 50% beneficial interest at Airport Place was approved by the independent trustees of HREIT. Mr. Thorsteinson abstained from voting on the resolution approving the transaction. The acquisition of the 50% beneficial interest is not a related party transaction under GAAP.

CHANGES IN ACCOUNTING POLICIES

Effective January 1, 2007, HREIT is adopting three new accounting policies, as established under GAAP. The adoption of the new accounting policies is not expected to have a material impact on the consolidated balance sheet or the consolidated statement of operations of the Trust. The new accounting policies are described below.

Financial Instruments, Recognition and Measurement

In January 2005, The Canadian Institute of Chartered Accountants ("CICA") released new Handbook Section 3855, Financial Instruments, Recognition and Measurement, effective for annual and interim periods beginning on or after October 1, 2006. This new section establishes standards for the recognition and measurement of all financial instruments, provides a character-based definition of a derivative financial instrument and provides criteria to be used to determine when a financial instrument should be recognized and when a financial instrument is to be extinguished.

Comprehensive Income and Equity

In January 2005, the CICA released new Handbook Section 1530, Comprehensive Income and Section 3251, Equity, effective for annual and interim periods beginning on or after October 1, 2006. Section 1530 establishes standards for reporting comprehensive income and its components. Section 3251 establishes standards for the presentation of equity and changes in equity during the reporting period. The requirements in Section 3251 are in addition in Section 1530.

Hedges

In January 2005, the CICA released new Handbook Section 3865, Hedges, effective for annual and interim periods beginning on or after October 1, 2006. Section 3865 specifies the criteria for the application of hedge accounting and for the implementation of hedge accounting for each of the permitted hedging strategies, namely fair value hedges; cash flow hedges and hedges of a foreign currency exposure of a net investment in a self-sustaining foreign operation.

OPERATING RISKS AND UNCERTAINTIES

An investment in units of HREIT encompasses the risks which are inherent in the ownership and operation of a portfolio of commercial properties, as well as the normal risks which are associated with an investment in a real estate investment trust.

The key risks include the following:

General

The properties of HREIT are subject to the normal risks common to real property ownership and operation, including the risk of a reduced demand for leased premises due to changes in general economic conditions, local real estate markets, competition from other available premises and various other factors. A reduction in demand would affect both the rental revenues of the income-producing properties and the management fees of CRESI. In order to minimize the general market risk and achieve stable or increasing average rental rates combined with acceptable occupancy levels, HREIT focuses on tenant retention and the marketing of vacant space through both the brokerage community and internal resources. HREIT further decreases its operating risk through property and geographic diversification, diversification of tenancies and staggered lease maturities. The risk of revenue losses due to defaults by commercial tenants in respect of lease obligations, is minimized by leasing to tenants with strong financial covenants with the rights of the Landlord strongly entrenched in contractual agreements. The risk of credit loss is also mitigated by limiting exposure to any one tenant. As indicated on page 22, the maximum amount of space which is leased to a single tenant does not exceed 10% of the total leasable space of the Trust. The risk of revenue losses due to the termination of management contracts is mitigated by virtue of CRESI having secured longer term contracts from its major commercial tenants.

Fluctuations in Cash Distributions

A return on an investment in units is not comparable to the return on an investment in a fixed-income security. The recovery of the initial investment in units is at risk, and the return on an investment in units is based on many performance assumptions. The ability of HREIT to continue to pay distributions which are in excess of its Distributable Income is dependent upon the level of cash reserves, the debt covenants and obligations of the Trust, the working capital requirements of the Trust and the future capital requirements of the Trust. Cash distributions may be reduced or suspended at any time. In addition, the market value of the units may decline if HREIT is unable to provide a satisfactory return to Unitholders.

Public Market Risk

It is not possible to predict the price at which units will trade in the future and there can be no assurance that an active trading market for the units will be sustained. The units will not necessarily trade at values determined solely by reference to the value of the properties of HREIT. Accordingly, the units may trade at a premium or a discount to the value implied by the value of the properties of HREIT. The market price for the units may be affected by changes in general market conditions, fluctuations in the markets for equity securities and numerous other factors beyond the control of HREIT.

Closing of Proposed Acquisitions

The continued growth of HREIT will depend on management's ability to identify opportunities for future property acquisitions, to acquire the properties and to successfully integrate the acquired properties. Management's ability to generate growth from property acquisitions may be affected to elevated acquisition costs, funding of the acquisitions, unexpected liabilities with regards to the properties and other problems related to the integration of the properties. Management's failure to successfully grow through future property acquisitions could adversely affect HREIT's financial condition, net income from operation and its ability to generate cash available for distribution.

Proposed Changes to Tax Treatment of Trusts

On December 21, 2006, the Minister of Finance (Canada) released draft legislation (the "Proposals") relating to the federal income taxation of publicly-traded trusts (such as income trusts and REITs) and partnerships. The Proposals are contemplated to apply to a publicly-traded trust that is a specified investment flow-through entity (a "SIFT") which existed before November 1, 2006 ("Existing Trust") commencing with taxation years ending in or after 2011 (other than those Existing Trusts which qualify for the REIT Exception as described below).

Certain distributions attributable to a SIFT will not be deductible in computing the SIFT's taxable income, and the SIFT will be subject to tax on such distributions at a rate that is substantially equivalent to the general tax rate applicable to Canadian corporations. Distributions paid by a SIFT as returns of capital will not be subject to this tax. There will be circumstances where an Existing Trust may lose its transitional relief where the Existing Trust undergoes "undue expansion".

The new taxation regime will not apply to certain Existing Trusts that qualify as REITs (the "REIT Exception") as defined in the Proposals. Accordingly, unless the REIT Exception is applicable to HREIT, the Proposals could, commencing in 2011, impact the level of cash distributions which would otherwise be made by HREIT. The Proposals do not fully accommodate the current business structures used by many Canadian REITs and contain a number of tests that many Canadian REITs, including HREIT, will likely find difficult to satisfy. The Minister's stated intention is to exempt REITs from taxation as SIFTs in recognition of "the unique history and role of collective real estate investment vehicles". Accordingly, it is possible that changes to these tests will be made prior to their enactment in order to accommodate some or all of the existing Canadian REITs, including HREIT. Alternatively, if the Proposals are not changed, existing Canadian REITs, including HREIT, may need to restructure their affairs in order to limit the application of the Proposals.

In the light of the foregoing, it is not currently possible to accurately predict whether the Proposals as ultimately enacted will have an adverse effect on HREIT.

Other

Other risks and uncertainties are more fully explained in the other regulatory filings of HREIT, including the Annual Information Form.

TAXATION

Taxation of HREIT

HREIT is generally subject to tax in Canada under the Income Tax (The "Tax Act") in respect to its taxable income each year, except to the extent such taxable income is paid or deemed to be payable to Unitholders and deducted by HREIT for tax purposes.

Pursuant to the Declaration of Trust of HREIT, the Trustees intend to distribute or designate all taxable income directly earned by HREIT to the Unitholders of the Trust in order to ensure that HREIT will not be subject to income tax under Part I of the Tax Act.

Taxation of Unitholders

A Unitholder is required to include, in computing income for tax purposes each year, the portion of the amount of net income and net taxable capital gains of HREIT paid or payable to the Unitholder in the year. The Declaration of Trust generally requires HREIT to claim the maximum amount of capital cost allowance for purposes of computing its income for tax purposes. The cash distributions which have been paid to the Unitholders, since the inception of HREIT as a real estate investment trust in 2005, have exceeded the income of HREIT, as calculated for income tax purposes. Distributions in excess of the taxable income of HREIT are allocated to the Unitholder for the year and will not be included in computing the taxable income of the Unitholder. The adjusted cost base of the units which are held by the Unitholder will, however, be reduced by the amount of distributions not included in income.

Upon the disposition or deemed disposition by a Unitholder of a unit, a capital gain (or a capital loss) will generally be realized to the extent that the net proceeds of disposition of the unit exceed (or are exceeded by) the adjusted cost base of the unit. Currently, only 50% of a capital gain ("taxable capital gain") must be included in computing a Unitholders' income and 50% of a capital loss (an "allowable capital loss") may be deducted against taxable capital gains.

The following chart discloses the taxable and non-taxable component of the cash distributions of HREIT.

	Year ended			
	2006		2005	
	Amount	%	Amount	%
Business income	$ -	- %	$ -	- %
Dividend income	400,000	2.1 %	-	- %
Taxable capital gains	439,992	2.3 %	-	- %
Return of capital	18,091,441	95.6 %	13,025,222	100.0 %
Total distributions	18,931,433	100.0 %	$ 13,025,222	100.0 %

CONTROLS AND PROCEDURES

Disclosure Controls

The management of HREIT, including the Chief Executive Officer ("CEO") and Chief Financial Officer ("CFO") are responsible for establishing and maintaining the disclosure controls and procedures for the Trust. Disclosure controls and procedures are designed to provide reasonable assurance that all relevant information is gathered and reported on a timely basis to management, including the CEO and the CFO, as appropriate, to allow timely decisions regarding disclosure.

The CEO and CFO evaluated the effectiveness of the disclosure controls and procedures of HREIT (as defined in Multilateral Instrument 52-109 - *Certification of Disclosure in Issuers' Annual and Interim Filings*) as at December 31, 2006 and have concluded that the controls and procedures are operating effectively.

Internal Controls over Financial Reporting

The management of HREIT, including the CEO and CFO are also responsible for establishing adequate internal controls over financial reporting to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with Canadian generally accepted accounting principles (GAAP).

The CEO and CFO conducted an assessment of the design of the internal controls over financial reporting for HREIT (as defined in *Multilateral Instrument 52-109, Certification of Disclosure in Issuers' Annual and Interim Filings*) as at December 31, 2006 and, based on that assessment, determined that the internal controls over financial reporting were appropriately designed.

No changes were made to the design of the internal controls over financial reporting during the three months ended December 31, 2006 that have materially affected, or are reasonably likely to materially affect, the effectiveness of the internal control system.

Readers are cautioned, however, that a control system can only provide reasonable, not absolute, assurance that the objectives of the control system are achieved. Due to the inherent limitations in all control systems, an evaluation of controls cannot provide absolute assurance that all control issues, including instances of fraud, if any, have been detected. Inherent limitations include the possibility that the assumptions and judgments of management could ultimately prove to be incorrect under varying conditions and circumstances; or that isolated errors could prove to have a significant impact on the reliability of information.

Additionally, controls may be circumvented by the unauthorized acts of individuals, by collusion of two or more people, or by management override. The design of any system of controls is also based in part upon certain assumptions about the likelihood of future events, and it is not possible to provide complete assurance that a control system will succeed in achieving its stated goals under all potential future conditions.

ADDITIONAL INFORMATION

Additional information relating to HREIT is available on the SEDAR website at www.sedar.com. SEDAR acts as a facilitator for the electronic filing of securities information, as required by the securities regulatory agencies in Canada.

APPROVAL BY TRUSTEES

The content of the 2006 Annual Report of HREIT and the delivery of the report to the Unitholders have been approved by the Trustees.

HUNTINGDON REAL ESTATE INVESTMENT TRUST
March 21, 2007

MANAGEMENT'S RESPONSIBILITY

The financial statements and management's discussion and analysis contained in the annual report are the responsibility of the management of Huntingdon Real Estate Investment Trust. To fulfill this responsibility, management maintains systems of internal control which are designed to give reasonable assurance that transactions are authorized and properly recorded, assets are safeguarded and financial records are properly maintained to provide reliable financial information for the preparation of the consolidated financial statements and other financial reports. The financial statements have been prepared in conformity with Canadian generally accepted accounting principles and, where appropriate, reflect estimates based on management's best estimates and judgment in the circumstances.

The financial statements have been reviewed and approved by the Board of Trustees and by the Audit Committee, which is comprised of the three independent Trustees. The Audit Committee meets regularly with management and the auditors. The auditors have full and direct access to the Audit Committee

Scarrow & Donald LLP, the independent auditors, were appointed by the Unitholders and are engaged to audit the financial statements in accordance with Canadian generally accepted auditing standards and provide an independent auditor's opinion.

"Arni C. Thorsteinson"

Arni C. Thorsteinson
Chief Executive Officer

"Larry J. Beeston"

Larry J. Beeston
Chief Financial Officer

March 21, 2007

Scarrow & Donald LLP

SCARROW & DONALD LLP
CHARTERED ACCOUNTANTS
100 - Five Donald Street
Winnipeg, Manitoba R3L 2T4
Telephone: (204) 982-9800
Fax: (204) 474-2886
www.scarrowdonald.mb.ca

March 21, 2007

AUDITORS' REPORT

To the Unitholders of
Huntingdon Real Estate Investment Trust:

We have audited the consolidated balance sheets of Huntingdon Real Estate Investment Trust as at December 31, 2006 and 2005 and the consolidated statements of income (loss), equity and cash flows for the years then ended. These financial statements are the responsibility of the Trust's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Trust as at December 31, 2006 and 2005 and the results of its operations and cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

Scarrow & Donald LLP

Chartered Accountants
Winnipeg, Canada

CONSOLIDATED BALANCE SHEETS

	December 31	
	2006	**2005**
Assets		
Income properties (Note 4)	**$356,336,417**	$240,340,123
Deferred charges (Note 5)	**25,751,574**	15,189,338
Cash (Note 6)	**22,149,645**	23,639,130
Other assets (Note 7)	**6,454,724**	10,081,755
Intangible assets (Note 8)	**11,936,213**	8,691,369
Assets of discontinued operations (Note 9)	**-**	3,174,376
Acquisition asset (Note 10)	**34,765,997**	-
	$457,394,570	$301,116,091
Liabilities and Equity		
Mortgage loans payable (Note 11)	**$264,701,327**	$127,490,580
Accounts payable and accrued liabilities	**8,506,385**	4,503,235
Convertible debentures (Note 12)	**9,316,092**	8,883,712
Intangible liabilities (Note 13)	**2,704,807**	3,219,378
Liabilities of discontinued operations (Note 9)	**-**	1,482,521
Acquisition liability (Note 10)	**34,765,997**	-
	319,994,608	145,579,426
Equity	**137,399,962**	155,536,665
	$457,394,570	$301,116,091

Approved by the Board of Trustees

"Arni C. Thorsteinson"

"Greg Doyle"

CONSOLIDATED STATEMENTS OF INCOME (LOSS)

	Year Ended December 31 2006	Year Ended December 31 2005
Revenue		
Rentals from income properties (Note 18)	$ 53,015,418	$ 14,151,826
Interest and other income	830,772	1,042,961
Property management revenue	3,517,390	3,248,756
	57,363,580	18,443,543
Expenses		
Property operating costs	21,940,807	5,646,126
Property management costs	2,680,953	2,680,005
	24,621,760	8,326,131
Operating income	32,741,820	10,117,412
Financing expense	15,410,033	3,521,649
Trust expense	2,182,434	1,224,394
Amortization	16,173,811	4,897,325
	33,766,278	9,643,368
Income (loss) from continuing operations	(1,024,458)	474,044
Income from discontinued operations (Note 9)	949,776	17,434
Income (loss)	$ (74,682)	$ 491,478
Income (loss) per unit (Note 19)		
Basic		
Continuing operations	$ (0.015)	$ 0.013
Discontinued operations	0.014	0.001
Total	(0.001)	0.014
Diluted		
Continuing operations	(0.015)	0.013
Discontinued operations	0.014	0.001
Total	$ (0.001)	$ 0.014

CONSOLIDATED STATEMENTS OF EQUITY

	Year Ended December 31	
	2006	2005
Trust Units (Note 16)		
Balance, beginning of period	**$165,182,172**	$ 317,321
Issuance of trust units	**825,000**	176,483,366
Value associated with unit options exercised	**-**	14,615
Value associated with DRIP units	**24,892**	-
Unit issue costs	**-**	(11,633,130)
Balance, end of period	**166,032,064**	165,182,172
Unit Options (Note 15 and 17)		
Balance, beginning of period	**210,332**	-
Value associated with unit options granted	**19,620**	224,947
Value associated with unit options exercised	**-**	(14,615)
Value associated with unit options cancelled	**(51,162)**	-
Balance, end of period	**178,790**	210,332
Equity Component of Convertible Debentures (Note 12)		
Balance, beginning of period	**2,686,432**	-
Equity component of convertible debentures issued	**-**	2,686,432
Balance, end of period	**2,686,432**	2,686,432
Cumulative earnings		
Balance, beginning of period	**482,951**	(8,527)
Value associated with unit options expired (Note 17)	**51,162**	-
Income (loss)	**(74,682)**	491,478
Balance, end of period	**459,431**	482,951
Cumulative distributions to unitholders		
Balance, beginning of period	**(13,025,222)**	-
Distribution to unitholders	**(18,931,533)**	(13,025,222)
Balance, end of period	**(31,956,755)**	(13,025,222)
Total unitholders' equity	**$137,399,962**	$155,536,665
Units issued and outstanding (Note 16)	**67,691,485**	67,405,242

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Year Ended December 31 2006	Year Ended December 31 2005
Cash provided by (used in) operating activities		
Income (loss) from continuing operations	$ (1,024,458)	$ 474,044
Items not affecting cash		
Accrued rental revenue (Note 18)	(1,024,628)	(131,926)
Amortization of above market in place leases (Note 8)	686,533	307,140
Amortization of below market in place leases (Note 13)	(1,339,521)	(447,583)
Amortization	16,173,811	4,897,325
Amortization of mortgage premiums	(112,246)	-
Unit-based compensation (Note 15 and 17)	19,620	224,947
Future income taxes	(247,800)	-
Accrued financing expenses on convertible debentures (Note 12)	1,338,420	835,934
Interest paid on debentures	(905,680)	(452,850)
	13,564,051	5,707,031
Lease acquisition costs	(4,327,459)	(595,657)
Long-term maintenance expenditures	(1,997,487)	(160,772)
Changes in non-cash operating items	2,235,095	1,686,464
	9,474,200	6,637,066
Cash provided by (used in) financing activities		
Proceeds of mortgage financing	43,342,360	30,904,998
Repayment of mortgage loans	-	(8,255,847)
Deferred financing charges	(1,411,685)	(1,272,776)
Debt principal repaid	(4,399,628)	(1,385,530)
Proceeds of convertible debentures (Note 12)	-	11,321,000
Proceeds from unit issues	-	175,449,366
Issue costs	-	(11,408,130)
Proceeds from exercise of options	-	309,000
Distribution paid	(18,906,641)	(13,025,222)
	18,624,406	182,636,859
Cash provided by (used in) investing activities		
Income properties acquired (Note 3)	(31,280,953)	(144,454,809)
Property management company acquired	-	(2,931,282)
Additions to building and equipment	(1,908,769)	(1,816,690)
Mortgage loan receivable acquired	-	(8,577,480)
Repayment of mortgage loan receivable	-	158,428
Deposits on potential acquisitions	-	(6,660,000)
Deposits refunded	960,000	-
	(32,229,722)	(164,281,833)

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Year Ended December 31	
	2006	2005
Cash provided by (used in) discontinued operations (Note 9)		
Cash flow from operations	$ 82,961	$ 23,550
Assets acquired	-	(1,690,213)
Amortization of assets acquired	-	(2,742)
Proceeds of mortgage financing	782,773	-
Expenditures on deferred financing charges	(5,116)	-
Debt principal paid	(44,464)	-
Changes in non-cash operating items	-	2,562
Proceeds of sale	1,825,477	-
	2,641,631	(1,666,843)
Decrease in cash	(1,489,485)	23,325,249
Cash, beginning of period	23,639,130	313,881
Cash, end of period	$ 22,149,645	$ 23,639,130
Supplementary cash flow information		
Interest paid on mortgage financing	$ 13,743,015	$ 1,844,896
Income taxes paid	$ 136,033	$ -

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2006 AND 2005

1 *Organization*

Huntingdon Real Estate Investment Trust ("the Trust") is a closed-end real estate investment trust which was created under a Declaration of Trust on January 10, 2005. On February 23, 2005 a Plan of Arrangement was completed, pursuant to which all of the outstanding shares of WPVC Inc., a predecessor capital pool company incorporated under the Canada Business Corporation Act, were exchanged for units of the Trust.

2 *Significant accounting policies*

The accompanying financial statements have been prepared by management in accordance with Canadian generally accepted accounting principles. These financial statements reflect the operations of the Trust and its wholly owned subsidiary, Consolidated Real Estate Services Inc.

Income properties
Income properties include land and buildings and fixtures of the real estate investments and furniture and equipment of Consolidated Real Estate Services Inc.

Income-producing properties are carried at cost. If events or circumstances indicate that the carrying value of the income-producing properties may be impaired, a recoverability analysis is performed based upon estimated undiscounted cash flows to be generated from the income-producing properties. If the analysis indicates that the carrying value is not recoverable from future cash flows, the income-producing properties are written down to estimated fair value and an impairment loss is recognized.

Amortization on buildings and fixtures is recorded on a straight-line basis over the remaining useful life (14 to 53 years).

Amortization on furniture and equipment is recorded on a straight-line basis over five years.

Deferred charges
Deferred charges include lease acquisition costs (tenant inducements and leasing expenses), deferred financing costs; maintenance expenditures which are recoverable from tenants or have a longer term useful life and deferred management fees. Lease acquisition costs are deferred and amortized on a straight-line basis over the term of the respective leases. Deferred financing costs and deferred management fees are amortized on a straight line basis over five years and ten years respectively. Maintenance expenditures are amortized on a straight line basis over the period during which they are recovered from tenants or, if the expenditures is not recoverable, over the estimated useful life.

In accordance with Canadian generally accepted accounting principles a portion of the purchase price on the purchase of a rental property shall be allocated to deferred charges to reflect the tenant origination costs (tenant inducements and leasing expenses) associated with in place leases. Similarly, a portion of the purchase price of Consolidated Real Estate Services Inc. has been allocated to deferred charges to reflect the value of in place management contracts.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2006 AND 2005

2 *Significant accounting policies (continued)*

Intangible assets and liabilities
In accordance with Canadian generally accepted accounting principles, a portion of the purchase price of a rental property shall be allocated to intangible assets and intangible liabilities to reflect the cost of lease origination costs; tenant relationships; above market leases and below market leases. Intangible assets and liabilities are amortized over the term of the tenant leases.

Convertible debentures
The convertible debentures are convertible into units, as disclosed in Note 12. Accordingly, the debentures are divided into debt and equity components, based on the net present value of the future payments at the time of issue.

Derivative financial instruments
Derivative financial instruments are utilized to reduce interest rate risk on the Trust's debt. The Trust does not enter into financial instruments for trading or speculative purposes.

Interest rate swap agreements are used as part of the Trust's program to manage the fixed and floating interest rate mix of the Trust's total debt portfolio and related overall cost of borrowing. The interest rate swap agreements involve the periodic exchange of payments without the exchange of the notional principal amount upon which the payments are based, and are recorded as an adjustment of interest expense on the hedged debt instrument. The related amount payable to or receivable from counterparties is included as an adjustment to accrued interest.

Gains and losses on terminations of interest rate swap agreements are deferred and recorded as other current, or non-current, assets or liabilities on the balance sheet and amortized as an adjustment to interest expense related to the obligation over the remaining term of the original contract life of the terminated swap agreement. In the event of early extinguishment of the debt obligation, any realized or unrealized gain or loss from the swap would be recognized in the consolidated statement of operations at the time of extinguishment.

Discontinued operations
A property is classified by the Trust as held for sale on the consolidated balance sheets when the property is available for immediate sale; management has committed to a plan to sell the asset and is actively locating a buyer for the asset at a sales price that is reasonable in relation to the current fair value of the asset; and the sale is probable and expected to be completed within a one-year period. Properties held for sale are stated at the lower of cost and net realizable value, less selling costs. No amortization is recorded on these properties once classified as held for sale. The results of operations associated with properties disposed of, or classified as held for sale, are reported separately as income from discontinued operations. The operations and cash flows of the property can be clearly distinguished, operationally and for financial purposes and has been reported in discontinued operations.

2 *Significant accounting policies (continued)*

Unit options

From inception to June 6, 2006, the Trust had a unit option plan available for officers, employees and trustees. The fair value based method of accounting is applied to all unit-based compensation. The fair value of the unit options granted is estimated on the date of grant using the Black-Scholes option pricing model. Compensation expense is recognized when unit options are granted. On the exercise of unit options, consideration received and the accumulated unit option value is credited to the Trust units. Awards of options related to private placement or public offerings of units are treated as unit issue costs.

Revenue recognition

Rents are recognized as revenue over the terms of the related lease agreements. Rental revenue from leases with contractual rent increases are recognized on a straight-line basis over the term of the respective leases. Recoveries from tenants for property operating costs and property taxes are recognized as revenues during the period in which the applicable costs are incurred.

Income taxes

The Trust is a "Mutual Fund Trust" for income tax purposes. In accordance with the terms of the Declaration of the Trust, the Trust shall distribute its income for income tax purposes each year by an amount which is sufficient to ensure that the Trust will not be liable for income taxes under Part I of the Income Tax Act (Note 20).

Consolidated Real Estate Services Inc., a wholly owned subsidiary of the Trust is an operating business and provides for income tax expense using the liability method of accounting for income taxes. Current income taxes are recognized for the estimated income taxes payable for the current year. Future income tax assets and liabilities are recognized for temporary differences between tax and accounting bases of assets and liabilities as well as the benefit of losses available to be carried forward to future years for tax purposes that are more likely than not to be realized.

Net income per unit

Per unit amounts are calculated using the weighted average number of units outstanding during the year. The dilutive effect on per unit amounts resulting from outstanding unit options is calculated using the treasury stock method. Under this method, the diluted weighted average number of units is calculated assuming the proceeds that arise from the exercise of the outstanding options are used to purchase units of the Trust at their average market price for the period.

Use of estimates

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities as at the date of the financial statements and the reported amounts of revenue and expenses during the year. Actual results could differ from the estimates, and as adjustments become necessary, the adjustments are reported in earnings in the period in which the adjustments become known.

Management has determined that significant items subject to such estimates include the allocation of the purchase price of properties; the recoverability of operating costs and property taxes and the remaining useful life of capital assets acquired.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2006 AND 2005

3 *Acquisitions*

The Trust has completed the following acquisitions as identified in Schedule 1. The net assets acquired in the transactions are as follows:

	Year Ended December 31	
	2006	2005
Land	$ 11,094,550	$ 41,759,263
Building and fixtures	112,544,135	199,099,941
Deferred charges		
Tenant inducements	5,634,446	9,650,833
Leasing expenses	1,449,400	2,482,702
Intangible assets		
Lease origination costs	4,102,150	6,472,547
Tenant relationships	516,285	1,036,946
Above market in place leases	1,618,050	2,145,589
Intangible liabilities		
Below market in-place leases	(824,950)	(3,666,962)
Property management company assets acquired	-	2,875,232
Working capital, net	(47,855)	676,009
	$136,086,211	$262,532,100

Consideration:

	Year Ended December 31	
	2006	2005
Cash used to acquire properties	$ 31,280,953	$144,454,809
Cash used to acquire property management company	-	2,931,282
Mortgage receivable retired	-	8,419,052
Deposits applied to purchases	5,600,000	-
Units issued	825,000	500,000
Mortgage financing assumed	98,380,258	106,226,957
	$136,086,211	$262,532,100

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2006 AND 2005

4 *Income properties*

December 31, 2006	Cost	Accumulated Amortization	Net book Value
Land	$ 52,853,813	$ -	$ 52,853,813
Buildings and fixtures	314,264,425	(10,846,041)	303,418,384
Furniture and equipment	167,794	(103,574)	64,220
	$367,286,032	$ (10,949,615)	$356,336,417

December 31, 2005	Cost	Accumulated Amortization	Net book Value
Land	$ 41,759,263	$ -	$ 41,759,263
Buildings and fixtures	200,916,629	(2,432,701)	198,483,928
Furniture and equipment	140,935	(44,003)	96,932
	$242,816,827	$ (2,476,704)	$240,340,123

Amortization of income properties consists of the following:

	Year Ended December 31	
	2006	2005
Buildings and fixtures	$ 8,413,340	$ 2,432,701
Furniture and equipment	59,571	44,003
	$ 8,472,911	$ 2,476,704

5 *Deferred charges*

December 31, 2006	Cost	Accumulated Amortization	Net book Value
Amounts recorded on acquisitions			
Tenant inducements	$ 15,285,279	$ (3,944,821)	$ 11,340,458
Leasing expenses	3,932,102	(839,658)	3,092,444
Management fees (a)	3,353,176	(447,235)	2,905,941
	22,570,557	(5,231,714)	17,338,843
Financing costs	2,676,886	(638,085)	2,038,801
Lease acquisition costs	4,904,123	(409,847)	4,494,276
Maintenance expenditures	2,177,252	(297,598)	1,879,654
	$ 32,328,818	$ (6,577,244)	$ 25,751,574

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2006 AND 2005

5 *Deferred charges (continued)*

December 31, 2005	Cost	Accumulated Amortization	Net book Value
Amounts recorded on acquisitions			
Tenant inducements	$ 9,650,833	$ (1,054,508)	$ 8,596,325
Leasing expenses	2,482,702	(197,949)	2,284,753
Management fees (a)	2,798,222	(279,822)	2,518,400
	14,931,757	(1,532,279)	13,399,478
Financing costs	1,252,360	(172,446)	1,079,914
Lease acquisition costs	392,644	(13,816)	378,828
Maintenance expenditures	356,076	(24,958)	331,118
	$ 16,932,837	$ (1,743,499)	$ 15,189,338

Amortization of deferred charges consists of the following:

	Year Ended December 31 2006	2005
Amounts recorded on acquisitions		
Tenant inducements	$ 2,890,313	$ 1,054,508
Leasing expenses	641,709	197,949
Management fees (a)	729,459	279,822
	4,261,481	1,532,279
Financing costs	465,639	172,446
Lease acquisition costs	396,031	13,816
Maintenance expenditures	272,640	24,958
	$ 5,395,791	$ 1,743,499

(a) During 2006, several property management agreements were terminated resulting in an adjustment to the estimated useful life of the deferred management fees and a $477,739 adjustment to amortization expense.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2006 AND 2005

6 *Cash*

At December 31, 2006 and December 31, 2005, cash includes cash in escrow and cash reserve deposits are as follows:

Property	Purpose of Escrow/Reserve	Year Ended December 31 2006	2005
Portage Place	To fund construction costs and tenant acquisition costs in accordance with a remerchandising plan	$ 6,074,494	$ 7,500,000
Portage Place	To adjust the purchase price upon completion of the remerchandising program	2,500,000	2,500,000
Portage Place	To fund any reduction in net operating income during the remerchandising period	986,157	1,500,000
Southland Mall	To fund construction costs and tenant inducements for vacant space	1,971,093	3,000,000
Southland Mall	Lease renewal reserve deposits held by the first mortgagee	306,947	270,023
Crossroads Centre	To supplement income and pay costs of preparing vacant space for occupancy	-	175,374
Speedvale Centre	To fund construction and tenant acquisition costs in accordance with a remerchandising plan	830,200	1,657,808
Speedvale Centre	To fund rental revenue during the remerchandising program	8,700	129,153
1000 Waverley	Lease renewal reserve deposits held by the first mortgagee	130,000	130,000
Centre Square	Capital reserve fund held by the condominium corporation to cover interior building repair and maintenance expenses	332,378	263,634
Vista Landing	Capital reserve fund held by the first mortgagee to cover interior building repair and maintenance expenses, leasehold improvements and future tax expenses	264,048	185,100
Lincoln Centre	Lease renewal reserve deposit held by the first mortgagee	803,587	1,081,260
City Place	To supplement income for a term which expires on June 30, 2009	3,142,333	-
		$ 17,349,937	$ 18,392,352

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2006 AND 2005

7 *Other assets*

	Year Ended December 31 2006	Year Ended December 31 2005
Amounts receivable	$ 2,529,904	$ 1,700,795
Amounts receivable - property management	240,067	429,440
Unallocated property acquisition costs	-	363,406
Accrued interest	58,745	9,910
Prepaid expenses	455,350	439,541
Prepaid construction costs	1,657,576	-
Future rent receivable	256,528	346,737
Deposits on potential acquisitions	100,000	6,660,000
Straight line rent receivable	1,156,554	131,926
	$ 6,454,724	$ 10,081,755

Future Rent Receivable
In accordance with the purchase and sale agreement for 1250 Steeles Avenue, Portage Place, Lincoln Centre, and Crossroads Centre; the vendor is responsible for paying future rents until responsibility for paying rent is assumed by a bona fide tenant. In this regard, $433,516 of the purchase price was allocated to future rent receivable to reflect the estimated rent receivable from the vendor. For the period ended December 31, 2006, $90,209 (2005 - $86,779) has been received.

8 *Intangible assets*

December 31, 2006	Cost	Accumulated Amortization	Net book Value
Lease origination costs	$ 10,574,696	$ (2,650,476)	$ 7,924,220
Tenant relationships	1,553,232	(311,205)	1,242,027
	12,127,928	(2,961,681)	9,166,247
Above market in-place leases	3,763,639	(993,673)	2,769,966
	$ 15,891,567	$ (3,955,354)	$ 11,936,213

December 31, 2005	Cost	Accumulated Amortization	Net book Value
Lease origination costs	$ 6,472,546	$ (641,358)	$ 5,831,188
Tenant relationships	1,036,946	(15,214)	1,021,732
	7,509,492	(656,572)	6,852,920
Above market in-place leases	2,145,589	(307,140)	1,838,449
	$ 9,655,081	$ (963,712)	$ 8,691,369

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2006 AND 2005

8 *Intangible assets (continued)*

Amortization of intangible assets consists of the following:

	Year Ended December 31 2006	Year Ended December 31 2005
Lease origination costs	$ 2,009,118	$ 641,358
Tenant relationships	295,991	15,214
	2,305,109	656,572
Above market in-place leases	686,533	307,140
	$ 2,991,642	$ 963,712

Amortization of the above market in-place leases is charged to rentals from income properties.

9 *Discontinued operations*

On August 1, 2006, the Trust sold its interest in 3223 - 10th Street, Calgary, Alberta in response to an unsolicited offer for gross proceeds of $4,000,000 resulting in a gain on sale of $885,162. The purchaser assumed mortgages totalling $2,155,210.

The following table discloses the balance sheets associated with the property classified as held for sale and the statements of income for properties sold and held for sale. The property involved in discontinued operations was previously included under Light Industrial and Alberta for segmented reporting purposes.

	Year Ended December 31 2006	Year Ended December 31 2005
Balance sheets		
Assets		
Income properties	$ -	$ 3,156,499
Deferred charges	-	10,594
Intangible assets	-	7,283
	-	3,174,376
Liabilities		
Mortgage loans payable	-	1,416,901
Accounts payable and accrued liabilities	-	2,562
Intangible liabilities	-	63,058
	-	1,482,521
Net investment in properties held for sale	$ -	$ 1,691,855

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2006 AND 2005

9 *Discontinued operations (continued)*

	Year Ended December 31 2006	Year Ended December 31 2005
Statements of income		
Rentals from income properties	$ 162,798	$ 24,824
Interest and other income	1,574	-
Expenses		
Property operating costs	9,663	1,274
Financing expense	71,150	-
Trust expense	598	-
Depreciation and amortization	18,347	6,116
Income, before gain on sale	64,614	17,434
Gain on sale	885,162	-
Income from discontinued operations	$ 949,776	$ 17,434

10 *Acquisition asset and liability*

In accordance with the purchase and sale agreement for City Place, the vendor was responsible for the defeasance of existing debt. In this regard, the debt was assumed by 1252229 Alberta Ltd. which owns sufficient Government of Canada bonds to meet the debt obligation. The Government of Canada bonds have been placed in escrow with Computer Share Trust Company of Canada, an agent of the debtholder. In accordance with Canadian generally accepted accounting principles, the bonds and debt obligations of 1252229 Alberta Ltd. have been identified on acquisition of the property and have been included in the accounts of the Trust as HREIT Holdings 33 Corporation (formerly 2017166 Ontario Limited), the bare trustee which holds title to City Place, remains the debtor on the loan documents. The respective asset and liability will be reduced on a monthly basis at the same rate as the debt is amortized until April 1, 2010 at which time the debt will be extinguished.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2006 AND 2005

11 *Mortgage loans payable*

Mortgage loans payable consists of the following:

	Year Ended December 31	
	2006	2005
First mortgage loans secured by specific income producing properties bearing interest at fixed rates between 4.65% and 8.28% (2005 - 4.65% and 8.28%) and with a weighted average interest rate of 6.25% (2005 - 6.42%) and maturing between January 1, 2006 and February 1, 2025 (weighted average term to maturity - 5.79 years; 2005 - 5.25 years).	$ 226,422,338	$114,435,741
Second mortgage loans secured by specific income producing properties bearing interest at fixed rates between 6.00% and 11.25% (2005 - 5.75% and 11.00%) with a weighted average interest rate of 9.85% (2005 - 9.16%) and maturing between May 1, 2007 and June 30, 2009 (weighted average term to maturity - 1.51 years; 2005 - 1.54 years).	32,950,213	12,613,817
Third mortgage loans secured by specific income producing properties bearing interest at fixed rates at 11.00% and mature on July 1, 2008.	5,000,000	-
	264,372,551	127,049,558
Mortgage premiums	328,776	441,022
	$264,701,327	$127,490,580

The weighted average interest rate for the aggregate loan balance is 6.79% (2005 - 6.69%), and the weighted average term to maturity is 5.17 years (2005 - 4.88 years).

Mortgage premiums represent the difference between the actual mortgages assumed on property acquisitions and the fair value of the mortgages at the date of purchase, less accumulated amortization for the period ended December 31, 2006 of $112,246 (2005 - $27,253). Mortgage premiums are amortized over the term of the respective mortgage.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2006 AND 2005

11 *Mortgage loans payable (continued)*

Future payments, excluding amortization of the mortgage premiums are as follows:

Year Ending December 31	
2007	$ 39,671,316
2008	55,882,303
2009	28,441,654
2010	27,973,639
2011	21,501,826
Thereafter	90,901,813
	264,372,551
Mortgage premiums	328,776
	$264,701,327

12 *Convertible debentures*

On March 22, 2005, the Trust issued Series A convertible debentures in the amount of $6,000,000.

The debentures bear interest at 8%, mature on March 22, 2010 and are subordinate only to the mortgage loans payable. Interest is payable semi-annually on March 22 and September 22. The debentures are convertible at the request of the holder at any time after March 22, 2007 at a conversion price per unit of $2.55.

On June 29, 2005, the Trust issued Series B convertible debentures in the amount of $5,321,000.

The debentures bear interest at 8%, mature on June 29, 2010 and are subordinate only to the mortgage loans payable. Interest is payable semi-annually on June 29 and December 29. The debentures are convertible at the request of the holder at any time after June 29, 2007 at a conversion price per unit of $3.30 prior to the third anniversary; at a conversion price per unit of $3.65 in the fourth year; and at a conversion price per unit of $4.05 in the fifth year.

The following allocation of the convertible debentures to debt and equity components is based on the net present value of future interest and principal payments with an estimated cost of borrowing without conversion option of 15% for the debentures:

December 31, 2006	Debt	Equity	Total
Series A Convertible debentures	$ 4,968,597	$ 1,423,778	$ 6,392,375
Series B Convertible debentures	4,347,495	1,262,654	5,610,149
	$ 9,316,092	$ 2,686,432	$ 12,002,524

December 31, 2005	Debt	Equity	Total
Series A Convertible debentures	$ 4,735,224	$ 1,423,778	$ 6,159,002
Series B Convertible debentures	4,148,488	1,262,654	5,411,142
	$ 8,883,712	$ 2,686,432	$ 11,570,144

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2006 AND 2005

12 *Convertible debentures (continued)*

The following schedule reflects the financing costs associated with the convertible debentures.

	December 31, 2006			December 31, 2005		
	Series A	Series B	Total	Series A	Series B	Total
Accretion of debt	$ 713,373	$ 625,047	$ 1,338,420	$ 531,002	$ 304,932	$ 835,934
Interest	(480,000)	(425,680)	(905,680)	(372,000)	(214,790)	(586,790)
	$ 233,373	$ 199,367	$ 432,740	$ 159,002	$ 90,142	$ 249,144

The difference between the accretion of the debt and accrued interest increases the debt component of the debentures from the initial carrying amount and is included in financing expense.

13 *Intangible liabilities*

December 31, 2006	Cost	Accumulated Amortization	Net book Value
Below market in-place leases	$ 4,491,911	$ (1,787,104)	$ 2,704,807

December 31, 2005	Cost	Accumulated Amortization	Net book Value
Below market in-place leases	$ 3,666,961	$ (447,583)	$ 3,219,378

Amortization of below market in-place leases of $1,339,521 for the period ended December 31, 2006 (2005 - $447,583), is credited to rentals from income properties.

14 *Future income taxes*

Income tax transactions in regard to taxes for Consolidated Real Estate Services Inc. are included in trust expenses and are comprised of the following:

	Year Ended December 31	
	2006	2005
Current taxes	$ 188,200	$ 17,833
Future income taxes	(247,800)	-
	$ (59,600)	$ 17,833

Future income tax liability of $869,200 (2005 - nil) is included in accounts payable and accrued liabilities.

15 *Related party transactions*

Related party transactions have occurred in the normal course of operations and are measured at the exchange amount which is the amount established and agreed by the related parties. Shelter Canadian Properties Limited and, its parent company, 2668921 Manitoba Ltd. are related parties of the Trust by virtue of the fact that all outstanding shares of 2668921 Manitoba Ltd. are owned by the family trust of an Officer and Trustee of the Trust.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2006 AND 2005

15 *Related party transactions (continued)*

Management agreement
The Trust entered into a property management agreement, for an initial term expiring February 23, 2010, with Shelter Canadian Properties Limited. Under the property management agreement, Shelter Canadian Properties Limited will administer the day-to-day operations of the Trust's portfolio of income properties. The Trust pays property management fees equal to 4% of gross receipts from the income properties owned by the Trust. Shelter Canadian Properties Limited is also entitled to leasing fees on new leases of 3% to 5% of base rental payments and leasing fees on renewals of 1 1/2% to 2 1/2% of base rental payments and to tenant improvement and renovation fees equal to 5% of the total cost of such work.

The following schedule reflects fees incurred by the Trust for management services:

	Year Ended December 31	
	2006	2005
Property management fees	$ 1,258,689	$ 327,104
Leasing fees	97,452	-
Tenant improvement and renovation fees	-	-
	$ 1,356,141	$ 327,104

Included in accounts payable is $409,117 representing unpaid management and leasing fees owing to Shelter Canadian Properties Limited at December 31, 2006 (2005 - $23,649).

Services agreement
The Trust entered into a services agreement, for an initial term expiring February 23, 2010, with Shelter Canadian Properties Limited. Under the services agreement, Shelter Canadian Properties Limited provides the Trust management and support services for the administration of the day-to-day activities of the Trust.

Initially, consideration under the services agreement was composed of options granted to Shelter Canadian Properties Limited to acquire an aggregate of 50,000 units at $0.50 per unit. The fair value of the unit options granted is estimated on the date of grant using the Black-Scholes options pricing model using a risk-free interest rate of 3.63% over the expected life of five years with an expected volatility rate of 25.58% and an expected dividend yield of 11.28%. On February 23, 2005, the 50,000 options granted to Shelter Canadian Properties Limited were exercised.

Unit-based compensation in regard to the options is being amortized over the term of the services agreement. Unit-based compensation expense of $19,620 for the period ended December 31, 2006 (2005 - $16,716), relating to options issued under the services agreement is included in trust expenses.

For the period from January 1, 2006 to June 30, 2007, fees for services rendered by Shelter Canadian Properties Limited to the Trust pursuant to the services agreement will be calculated at 0.3% of gross book value, excluding cash. Service fee expense of $965,286 for the period ended December 31, 2006 (2005 - $400,000) is included in trust expenses.

Consolidated Real Estate Services Inc. (CRESI)
Shelter Canadian Properties Limited provides executive management services and other assistance to CRESI and receives an annual cost recovery fee of $150,000. Cost recovery of $150,000 for the period ended December 31, 2006 (2005 - $105,000) is included in property management costs.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2006 AND 2005

15 *Related party transactions (continued)*

Property acquisitions
As of December 31, 2006, the investments of the Trust include the properties located at 1935 Sargent Avenue, 130 Lowson Crescent, 119/130 Plymouth Avenue, 846, 850 and 854 Marion Street in Winnipeg, Manitoba and 1189 Colonel Sam Drive in Oshawa, Ontario. On the date of acquisition of the properties, the parent corporation of Shelter Canadian Properties Limited, 2668921 Manitoba Ltd., held a 20% ownership interest in the 846, 850 and 854 Marion Street property, a 50% ownership interest in the 1935 Sargent Avenue property and a 100% ownership interest in the 130 Lowson Crescent property; the 119/130 Plymouth Avenue; and the 1189 Colonel Sam Drive properties.

16 *Units*

During the period, the Trust issued the following trust units:

	Year Ended December 31			
	2006		2005	
	Units	Amount	Units	Amount
Units outstanding, beginning of year	67,405,242	$165,182,172	500,000	$ 317,321
Units issued				
For cash	-	-	66,323,242	175,449,366
For properties	275,000	825,000	250,000	500,000
On exercise of options	-	-	232,000	309,000
For advisory services (a)	-	-	100,000	225,000
Value associated with unit option grants exercised	-	-	-	14,615
Value associated with DRIP units	11,243	24,892	-	-
Unit issue costs (a)	-	-	-	(11,633,130)
Units outstanding, end of period	67,691,485	$166,032,064	67,405,242	$165,182,172

(a) Included in unit issue costs for the year ended December 31, 2005 is $225,000 related to the value of units issued for advisory services.

17 *Unit options*

On February 23, 2005, the Trust granted options to trustees and officers to acquire an aggregate of 333,000 units at $2.00 per unit. The options have vested and expire February 23, 2010. On June 30, 2005 and September 16, 2005, options for 25,000 and 77,000 trust units, respectively, were exercised.

The fair value of the unit options granted is estimated on the date of grant using the Black-Scholes option pricing model using a risk-free interest rate of 3.63% over an expected life of five years with an expected volatility rate of 25.58% and an expected dividend yield of 11.28%. Compensation expense is recognized when unit options are granted.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2006 AND 2005

17 *Unit option plan (continued)*

On November 24, 2005, the Trust granted options to Trustees to acquire an aggregate of 600,000 units at $2.85 per unit. The options have vested and expire November 24, 2010.

The fair value of the unit options granted is estimated on the date of grant using the Black-Scholes option pricing model using a risk-free interest rate of 3.81% over an expected life of five years with an expected volatility rate of 35.00% and an expected dividend yield of 9.86%. Compensation expense is recognized when unit options are granted.

Unit based compensation expense of $208,231 for the year ended December 31, 2005, relating to options issued to trustees and officers, was recorded to expense the fair value of unit based compensation, in full.

A summary of the unit options transactions are as follows:

Date	Options	Units	Exercise Price	Proceeds
February 23, 2005	Granted	333,000	$ 2.00	$ -
June 30, 2005	Exercised	(25,000)	2.00	50,000
September 16, 2005	Exercised	(77,000)	2.00	154,000
November 24, 2005	Granted	600,000	2.85	-
Outstanding, December 31, 2005		831,000		$ 204,000
Weighted average exercise price		$ 2.61		

Date	Options	Units	Exercise Price	Proceeds
Outstanding, January 1, 2006		831,000	-	-
September 5, 2006	Cancelled	(150,000)	2.85	-
September 5, 2006	Cancelled	(77,000)	2.00	-
Outstanding, December 31, 2006		604,000		$ -
Weighted average exercise price		$ 2.63		

The value attributable to the expired options is $51,162.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2006 AND 2005

18 *Rentals from income properties*

	Year Ended December 31 2006	2005
Rental revenue contractually due from tenants	$ 51,337,802	$ 13,879,457
Accrued rental revenue recognized on a straight-line basis	1,024,628	131,926
Amortization of above market in-place leases	(686,533)	(307,140)
Amortization of below market in-place leases	1,339,521	447,583
	$ 53,015,418	$ 14,151,826

Rental revenue contractually due from tenants includes the recovery of property operating costs from tenants of $16,631,840 for the period ended December 31, 2006 (2005 - $4,160,736).

19 *Per unit calculations*

Basic per unit information is calculated based on the weighted average number of units outstanding for the period. The diluted per unit information is calculated based on the weighted average diluted number of units for the period, considering the potential exercise of outstanding unit options to the extent that the unit options are dilutive and the potential conversion of outstanding convertible debentures to the extent that the debentures are dilutive.

Income per unit calculations are based on the following:

Income (loss) from Continuing Operations:

	Year Ended December 31 2006	2005
Income (loss)	$ (1,024,458)	$ 474,044
Diluted income (loss)	$ (1,024,458)	$ 474,044
Weighted average number of units	67,568,323	35,780,153
Dilutive options	-	79,826
Weighted average diluted number of units	67,568,323	35,859,979

Income (loss) after Discontinued Operations:

	Year Ended December 31 2006	2005
Income (loss)	$ (74,682)	$ 491,478
Diluted income (loss)	$ (74,682)	$ 491,478
Weighted average number of units	67,568,323	35,780,153
Dilutive options	-	79,826
Weighted average diluted number of units	67,568,323	35,859,979

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2006 AND 2005

20 ***Distribution of income***

In accordance with the Declaration of Trust, the Trust shall issue cash distributions in an amount equal to the aggregate of:

- taxable income from operations (exclusive of taxable capital gains, net of allowable capital losses); and
- realized capital gains, net of any realized allowable capital losses for the year.

The following table reflects taxable income by source and the minimum distribution required in accordance with the Declaration of Trust.

	Year Ended December 31	
	2006	2005
Business income	$ -	$ -
Dividend income	400,000	-
Taxable capital gain	439,992	-
Minimum distribution required by Declaration of Trust	$ 839,992	$ -
Actual distributions	$ 18,931,533	$ 13,025,222

21 ***Financial instruments and risk management***

Fair values
Financial instruments include cash, amounts receivable, accrued interest, future rent receivable, deposits on potential acquisitions, straight line rent receivable, accounts payable, mortgage loans payable and convertible debentures payable. Except for mortgage loans payable, the carrying values of financial instruments approximate fair value. The carrying value of the mortgage loans payable are impacted by changes in market yields which can result in differences between the carrying value and fair value of instruments. The estimated fair value of mortgage loans payable is $265,018,790 (2005 - $127,603,882).

Risk management
In the normal course of business, the Trust is exposed to financial risk that arises from its indebtedness, including fluctuations in interest rates and in the credit quality of its tenants. The Trust manages the risks, as follows:

- Fluctuations in interest rate creates a cash flow risk which is minimized by obtaining long term mortgages and arranging long term leases. The Declaration of Trust restricts mortgage loans on income properties from being greater than 75% of the appraised value of the income properties. As at December 31, 2006, the total of mortgage loans payable is 60.8% (2005 - 48.6%) of the total estimated current value of income properties.
- Credit risk arises from the possibility that tenants may experience financial difficulty and may not be able to fulfill their lease commitments. The risk of credit loss is mitigated by leasing policies which require that the financial viability of prospective tenants are investigated in order to help ensure that the tenant mix is comprised of tenants with credit worthy covenants. The risk of credit loss is also mitigated by ensuring that the tenant mix is diversified and by limiting the exposure to any one tenant. No single tenant accounted for 10% or more of the rentals from income properties.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2006 AND 2005

21 *Financial instruments and risk management (continued)*

The Trust is also exposed to property management operating risk which arises from the possibility that the management company will lose contracts as a result of property sale or other reasons. Property management operating risk is mitigated by seeking long-term contracts from major commercial clients and by the ability of the company to secure contracts through its relationship with the Trust and other business partners/associates.

22 *Segmented financial information - continuing operations*

The assets are comprised in and revenue is derived from the operation of light industrial, office and retail properties as well as the operations of a property management company. Schedule 2 summarizes the segmented reporting by operating segments.

The assets are located in British Columbia, Alberta, Saskatchewan, Manitoba, Ontario and the Northwest Territories. Schedule 3 summarizes the segmented reporting by geographic region.

23 *Subsequent events*

Acquisitions
On March 2, 2007, the Trust acquired a 50% interest in Airport Place, a 655,005 square foot retail, office and warehouse building located in Winnipeg, Manitoba for a total cost of $7,400,000. The acquisition was funded by a first mortgage loan in the principal amount of $6,250,000 with the balance paid in cash.

The Trust entered an unconditional agreeement to acquire the Leader Energy Services Ltd. warehouse portfolio, three warehouse buildings comprising and aggregate of 94,960 square feet, located in Grand Prairie, Red Deer and Brooks, Alberta for a total cost of $19,600,000. The acquisition was funded by a new first mortgage loan in the principal amount of $13,975,000 with the balance paid in cash. In accordance with the terms of the purchase and sale agreement, rental revenue from Leader Energy Services Ltd. will accrue to the Trust effective January 1, 2007.

Convertible debentures
On March 21, 2007, the Trust filed a short form prospectus in regard to the offering of Series C convertible debenture issue to a maximum aggregate principal amount of $42,000,000 plus an agents option equal to 15% of the debentures sold. The debentures will have a 5 year term and will bear interest at 7.5%.

Unit offering
On January 17 , 2007, the Trust completed a private placement of 4,166,700 units at a price of $2.40 per unit for aggregate gross proceeds of $10,000,080.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2006 AND 2005

24 *Contingent considerations*

In accordance with the purchase and sale agreement for several properties, the vendor is entitled to purchase price adjustments related to future events. The following schedule reflects the timing of contingent consideration transactions:

Property	Contingent consideration
Southland Mall	If prior to August 1, 2007, the net operating income of the property exceeds $1,180,000; the purchase price will be increased by an amount equal to the excess multiplied by $10.
City Place	The purchase and sale agreement provides for contingent consideration equal to the amount by which net operating income for the year ending November 30, 2008 from the 551 stall parkade and two surface parking lots exceed $850,000 multiplied by 10. The contingent consideration is due June 30, 2009.

25 *Tax bases*

The value of income properties for income tax purposes are as follows:

	Year Ended December 31	
	2006	2005
Land - adjusted cost base	$ 52,853,813	$ 41,759,263
Building and fixtures - undepreciated capital cost	338,020,130	216,777,759
	$390,873,943	$258,537,022
Financing fees - undeducted reserve	$ 9,228,086	$ 10,660,147

HUNTINGDON REAL ESTATE INVESTMENT TRUST
Summary of Acquisitions

Schedule 1

Real Estate Portfolio - December 31, 2006

Property	Location	Total Acquisition Cost (1)	Acquisition Date	Leasable Area (Sq. Ft.)	Assumption of Mortgage
Light Industrial					
1935 Sargent	Winnipeg, MB	$ 8,130,000	February 2005	113,864	$5,902,500
130 Lowson Crescent	Winnipeg, MB	1,657,600	March 2005	25,672	1,232,532
891/895 Century Avenue	Winnipeg, MB	1,689,875	April 2005	51,835	730,262
119/130 Plymouth	Winnipeg, MB	1,917,114	May 2005	43,364	1,451,092
1300 Church Avenue.	Winnipeg, MB	1,285,216	May 2005	40,602	709,174
110 Lowson Crescent	Winnipeg, MB	2,906,894	May 2005	60,903	1,599,049
650 Riverview Drive	Chatham, ON	9,152,813	July 2005	292,376	-
80/88 Fennell Street	Winnipeg, MB	1,232,923	August 2005	40,320	-
110 Henderson Drive	Regina, SK	2,925,465	September 2005	101,360	500,000
5404-36th Street	Calgary, AB	2,405,907	December 2005	36,000	1,146,500
505 Industrial Drive	Milton, ON	16,495,805	May 2006	258,960	12,000,000
846, 850, 854 Marion Street	Winnipeg, MB	2,756,497	June 2006	82,851	2,004,000
Total Light Industrial		52,556,109		1,148,107	27,275,109
Retail					
Westwood Mall	Thompson, MB	2,002,181	March 2005	53,996	-
Southfort Square	Fort Sask., AB	1,713,693	April 2005	33,508	-
Vista Landing	Calgary, AB	8,319,283	June 2005	62,099	3,840,998
Northgate Shopping Centre	Winnipeg, MB	5,602,323	June 2005	238,254	3,282,841
Chemainus Properties	Chemainus, BC	4,311,914	August 2005	35,397	-
Cumbria Centre	Spruce Grove, AB	2,148,485	August 2005	21,253	1,140,716
125-185 First Street East	Cochrane, AB	2,807,666	August 2005	15,757	-
Westland Plaza	Okotoks, AB	2,906,932	August 2005	13,839	1,370,982
Charleswood Square	Winnipeg, MB	3,534,758	August 2005	34,069	1,890,391
550 Saskatchewan	Portage la Prairie, MB	421,565	August 2005	1,995	-
1250 Steeles Avenue East	Brampton, ON	6,429,155	September 2005	50,056	3,363,154
Crossroads Centre	London, ON	25,663,990	September 2005	193,873	15,317,853
Lincoln Centre	Welland, ON	5,955,940	September 2005	167,132	3,839,991
Portage Place	Peterborough, ON	26,017,681	September 2005	212,766	12,973,795
Speedvale Centre	Guelph, ON	14,462,788	September 2005	116,868	4,566,873
Suncoast Mall	Goderich, ON	12,697,334	September 2005	160,379	7,392,358
Southland Mall	Winkler, MB	10,763,219	September 2005	182,796	6,487,591
Humboldt Mall	Humboldt, SK	3,515,282	September 2005	105,801	-
Willowcreek Centre	Peterborough, ON	13,529,271	September 2005	64,265	4,902,592
Flin Flon Wal-Mart	Flin Flon, MB	6,015,877	October 2005	63,439	3,937,834
Deer Park	Red Deer, AB	11,630,093	October 2005	57,806	7,540,000
Harbourview Village	Kenora, ON	1,290,210	November 2005	14,864	506,000
Douglasview Centre	Calgary, AB	3,617,648	March 2006	17,084	2,700,000
Airport Road	Yellowknife, NWT	5,310,423	June 2006	15,924	3,710,000
Total Retail		180,667,711		1,933,220	88,763,969
Office					
1000 Waverley Street	Winnipeg, MB	5,372,669	May 2005	59,439	2,946,379
Newport Center	Winnipeg, MB	13,269,309	May 2005	152,915	7,655,500
1189 Colonel Sam Drive	Oshawa, ON	17,157,983	July 2005	103,179	-
114 Garry Street	Winnipeg, MB	5,723,658	August, 2005	74,248	-
Centre Square	Yellowknife, NWT	13,089,802	August, 2005	92,420	-
Saskatchewan Place	Regina, SK	7,429,365	February 2006	81,381	2,906,258
280 Broadway Avenue	Winnipeg, MB	11,217,828	March 2006	104,525	7,400,000
Medical Arts Building	Winnipeg, MB	14,342,162	April 2006	109,104	9,660,000
City Place	Winnipeg, MB	74,916,483	June 2006	451,764	58,000,000
Total Office		162,519,259		1,228,975	88,568,137
Total Properties		395,743,079		4,310,302	$204,607,215
Other					
CRESI	Calgary, AB	2,875,232	March 2005		
Total real estate investments		$ 398,618,311			

(1) The total acquisition cost reflects all costs including the purchase price, legal fees, land transfer fees and consulting fees, incurred in the acquisition of the property.

HUNTINGDON REAL ESTATE INVESTMENT TRUST

Schedule 2

Segmented Information by Property Type

Year Ended December 31, 2006:

	Light Industrial	Office	Retail	Property Total	Property Management	Trust	Total
Rentals from income properties	6,427,955	21,550,252	25,037,211	53,015,418	-	-	53,015,418
Property management revenue	-	-	-	-	3,517,390	-	3,517,390
Interest and other income	31,613	247,043	361,854	640,510	19,661	170,601	830,772
Operating costs	1,636,097	10,164,108	10,140,602	21,940,807	2,680,953	-	24,621,760
Operating income	4,823,471	11,633,187	15,258,463	31,715,121	856,098	170,601	32,741,820
Financing expense	1,391,195	4,760,149	7,256,844	13,408,188	-	2,001,845	15,410,033
Trust expenses	16,248	93,746	157,753	267,747	9,545	1,905,142	2,182,434
Depreciation and amortization	1,698,629	5,534,590	7,981,127	15,214,346	792,269	167,196	16,173,811
Income (loss) from continuing operations	1,717,399	1,244,702	(137,261)	2,824,840	54,284	(3,903,582)	(1,024,458)
Total assets	54,909,843	198,756,051	198,360,727	452,026,621	3,516,348	1,851,601	457,394,570

Year Ended December 31, 2005:

	Light Industrial	Office	Retail	Property Total	Property Management	Trust	Total
Rentals from income properties	2,309,530	4,740,084	7,102,212	14,151,826	-	-	14,151,826
Property management revenue	-	-	-	-	3,248,756	-	3,248,756
Interest and other income	55,885	234,931	138,085	428,901	17,778	596,282	1,042,961
Operating costs	602,787	2,276,233	2,767,106	5,646,126	2,680,005	-	8,326,131
Operating income	1,762,628	2,698,782	4,473,191	8,934,601	586,529	596,282	10,117,412
Financing expense	562,912	561,294	1,561,510	2,685,716	-	835,933	3,521,649
Trust expenses	15,042	(3,838)	93,244	104,448	194,923	925,023	1,224,394
Depreciation and amortization	670,548	1,456,927	2,317,937	4,445,412	323,825	128,088	4,897,325
Income (loss) from continuing operations	514,126	684,399	500,500	1,699,025	67,781	(1,292,762)	474,044
Total assets	37,987,987	55,209,160	195,292,867	288,490,014	3,830,281	8,795,796	301,116,091

HUNTINGDON REAL ESTATE INVESTMENT TRUST

Schedule 3

Segmented Information by Geographic Region

Year Ended December 31, 2006:

	Alberta Management	Alberta Property	British Columbia	Manitoba	Northwest Terrorities	Ontario	Saskatchewan	Trust	Total
Rentals from income properties	-	4,711,870	550,638	22,789,714	3,917,095	18,379,295	2,666,806	-	53,015,418
Property management revenue	3,517,390	-	-	-	-	-	-	-	3,517,390
Interest and other income	19,661	42,234	1,031	358,283	15,647	195,993	27,322	170,601	830,772
Operating costs	2,680,953	1,396,311	127,499	10,572,351	1,707,824	6,699,298	1,437,524	-	24,621,760
Operating income	856,098	3,357,793	424,170	12,575,646	2,224,918	11,875,990	1,256,604	170,601	32,741,820
Financing expense	-	1,185,791	98,801	5,334,113	577,467	5,827,085	384,931	2,001,845	15,410,033
Trust expenses	9,545	18,401	2,350	56,045	29,998	153,713	7,240	1,905,142	2,182,434
Depreciation and amortization	792,269	1,293,740	169,123	6,432,570	512,447	6,068,496	737,970	167,196	16,173,811
Income (loss) from continuing operations	54,284	859,861	153,896	752,918	1,105,006	(173,304)	126,463	(3,903,582)	(1,024,458)
Total assets	3,516,348	35,716,680	4,296,135	215,216,705	18,808,183	163,522,632	14,466,286	1,851,601	457,394,570

Year Ended December 31, 2005:

	Alberta Management	Alberta Property	British Columbia	Manitoba	Northwest Terrorities	Ontario	Saskatchewan	Trust	Total
Rentals from income properties	-	1,454,131	210,421	5,883,594	1,170,735	5,068,895	364,050	-	14,151,826
Property management revenue	3,248,756	-	-	-	-	-	-	-	3,248,756
Interest and other income	17,778	22,552	-	192,346	118,478	46,476	49,049	596,282	1,042,961
Operating costs	2,680,005	390,188	49,730	2,590,682	722,914	1,730,002	162,610	-	8,326,131
Operating income	586,529	1,086,495	160,691	3,485,258	566,299	3,385,369	250,489	596,282	10,117,412
Financing expense	-	257,142	-	1,343,537	128,113	954,376	2,548	835,933	3,521,649
Trust expenses	194,923	31,674	1,525	24,601	3,236	43,284	128	925,023	1,224,394
Depreciation and amortization	323,825	416,809	90,519	2,127,285	171,393	1,530,956	108,450	128,088	4,897,325
Income (loss) from continuing operations	67,781	380,870	68,647	(10,165)	263,557	856,753	139,363	(1,292,762)	474,044
Total assets	3,830,281	36,090,992	4,454,228	75,859,520	13,503,059	151,639,278	6,942,937	8,795,796	301,116,091

UNITHOLDER INFORMATION

Trustees and Officers

The investment policies and operations of HREIT are subject to the control of the trustees, pursuant to the terms of a Declaration of Trust. The Declaration of Trust provides for a minimum of three trustees and a maximum of ten trustees and requires that the majority of trustees be independent trustees. As the appointed Administrator of HREIT, Shelter Canadian Properties Limited has the right to appoint one trustee.

The current trustees of HREIT are Mr. Edward Bailey, Mr. Gary Coleman, Mr. D. Greg Doyle and Mr. Arni C. Thorsteinson. Mr. Oliver Plett, who was one of the original trustees of HREIT, resigned from the Board of Trustees in June 2006.

Mr. Coleman is the President of Big Freight Systems Inc. Mr. Bailey and Mr. Doyle are retired. Prior to his retirement in 2000, Mr. Bailey was the Senior Vice President and a major shareholder in The Landmark Group Inc., a holding company that owned Landmark Feeds Inc. and Elite Swine Inc. Mr. Doyle was appointed at the Annual General Meeting of HREIT in June 2006 and is the Chairman of the Audit Committee. Prior to his retirement in 2003, Mr. Doyle was a Senior Partner of KPMB Polska in Warsaw, Poland. Prior to transferring to Poland in 1997, Mr. Doyle was the Managing Partner of the Winnipeg office of KPMG LLP. Mr. Thorsteinson, CFA, is the President of Shelter Canadian Properties Limited and serves as President and Chief Executive Officer of HREIT. Mr. Thorsteinson is the trustee appointee of Shelter Canadian Properties Limited.

The Chief Financial Officer and Secretary of HREIT is Mr. Larry Beeston, CA, Senior Regional Manager - Western Canada for Shelter Canadian Properties Limited.

Administrator of the Trust

Shelter Canadian Properties Limited has been appointed by the Trustees, pursuant to the terms of a Services Agreement, to administer the daily affairs of HREIT and to perform the accounting and reporting functions of HREIT.

Property Management

Shelter Canadian Properties Limited has been appointed by the Trustees, pursuant to the terms of the Property Management Agreement, to act as the Property Manager for all of the income properties in the HREIT portfolio.

Shelter Canadian Properties Limited is one of Canada's leading privately owned real estate development and property management companies.

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Website: www.hreit.ca

Unit Listing

Toronto Stock Exchange (TSX)
Unit trading symbol: HNT.UN

Unitholder and Investor Contact

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Shelter Canadian Properties Limited
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Transfer Agent and Registrar

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Chartered Accountants
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